THE DISAM JOURNAL OF
INTERNATIONAL SECURITY ASSISTANCE MANAGEMENT

Since the end of the Cold War, American military presence in the Pacific has been reduced dramatically. With the loss of major bases in the Philippines, the U.S. has been forced to change its strategy in East Asia. Singapore, although small, has become an important partner in our new strategic landscape. Its size belies its economic importance; as one of the famous Asian Tigers, its economy has blossomed, and the city-state is now major force in technology, transportation, and oil refining. Militarily, in partnership with the U.S., Singapore has become a logistics center for American forces in the region. In addition Singapore has a strong FMS relationship, procuring much of the advanced technology that offsets its size and population. Technology, in fact, is the hallmark of Singapore's defense forces and is consciously developed as a force multiplier. By its search for global partners to exploit existing technologies, Singapore has established an environment of international defense collaboration. For the U.S., this translates into a welcome strategic partner in Asia.

The FY1999 legislation that affects security assistance brought no surprises this year. The overall funding for the program changed little from FY1998, and the provisions of last year's law were generally extended for this year. In our annual report on legislation, we have included the actions of Congress, as well as executive branch allocations for the categories of aid of interest to the security assistance community.

Included in this issue is the annual report on offsets in defense exports which is prepared by the Department of Commerce. This report focuses on the export sectors most apt to be involved in defense offsets, the regions most prone to demand offsets, and the trends that we see in offset requirements. This report also contains a discussion of offsets as an economic tool and the benefits or losses that may accrue to buyers who demand offsets.

In recent years, there has been a notable increase in the use of Defense Department material and services which have been drawn down for emergency uses through special authority in the Foreign Assistance Act. Our article discusses the process government agencies must adhere to in implementing these drawdowns and looks at the case of the FY 98 drawdown for counternarcotics support to emphasize the intricacies involved.

The Defense Institute of International Legal Studies conducts seminars on the rule of law, justice and human rights. In an innovative Court Observer Program, judges from Mongolia and Russia observe jury trial procedures in Hawaii for a firsthand look at a procedure that is central to the American justice system.

The Foreign Comparative Testing program is designed to allow the U.S. military services to test equipment already developed abroad with an eye towards satisfying our military requirements without developing the technology ourselves. In the last twenty years, we have purchased nearly $5 billion of material originally developed by international suppliers.

JUDY-ANN CARROLL
Colonel, USA
Commandant

THE DISAM JOURNAL

of international Security Assistance Management

Spring 1999, Vol. 21 No. 3

FEATURE ARTICLE

"Strategic Partnership": The Case For Singapore

By

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In 1990, the United States maintained approximately 135,000 personnel in the Pacific Theater. By 1998, United States personnel in the Pacific had been reduced to 100,000. Worldwide, Army divisions, Navy aircraft carrier battle groups, and Air Force fighter wings have been reduced by a third. Overseas basing is a shadow of its former strength. At the same time, American engagements across the globe have increased by a factor of four.

As America shifts military assets between theaters to engage crises, the potential exists for some to view this as a lack of commitment and interest. For example, when the United States reacted to the crisis in the Persian Gulf early in 1998, Pacific Theater commanders were left with zero carriers. If a crisis had erupted in the Pacific and a carrier was dispatched to address the crisis, the closest port for maintenance (if the carrier had been damaged) would have been Japan. In the twenty-first century, America needs the ability to rapidly shift limited, valuable military assets between theaters and re-introduce them again should the need exist. Regardless of the status or location of these assets, America must be able to continue to meet its commitments, reassure its friends, and deter potential adversaries.

As the world steps across the threshold into the coming century, security assistance takes on added importance. The United States is actively establishing "Strategic Partnerships" with friends across the globe. Each relationship is being considered on its relative merits. In one case, the relationship may be based on access granted to United States forces. In another instance, the relationship may rest on a highly developed logistics infrastructure and the incorporation of American equipment into a host nation's defense infrastructure. In every instance, security assistance plays a vital role. Training, education, and equipment provided to other nations by the United States allow America to effectively execute its national security policy.

The question that must be continuously asked and answered is "Which countries should be identified as strategic partners, and what level of investment should America make in these countries?" The United States recognizes that future crises may depend on the element of time. If the United States cannot respond quickly, the situation may deteriorate so that the eventual American response results in increased military losses of personnel and equipment. Equally as important, the United States may lose the opportunity to resolve the crisis in a manner that preserves American interests. This article addresses the case for Singapore. Although one of the world's newer countries, Singapore has come a great distance in a relatively short time. The current United States-Singaporean relationship is strong and the future is bright. As you read this article, imagine the possibilities that the American-Singaporean relationship can create in the Pacific. But just as important, consider the application of this model to other partners in the world.

Singapore: A Pearl of Southeast Asia

David fought Goliath during the biblical battle centuries ago, but the story is still an important analogy for skill overcoming size. Not surprisingly, Singapore is a country that models itself on David. Singapore is a mere 240 square miles in size. The main island is surrounded by 60 smaller ones. By comparison, Rhode Island, America's smallest state is a monstrous 1,212 square miles. It's not much real estate to work with. Since the country's independence in 1965, a remarkable economy and societal structure have developed. Today, despite an economic crisis gripping the region, Singapore has weathered the storm relatively unscathed, with substantial reserves and zero foreign debt. The framework that has allowed this "Asian Pearl" to blossom has been thirty-three years of continuous peace. Understandably, the Singapore Armed Forces (SAF) are very proud of the part they have played in this success story. Its geographic position at the southern tip of the Malaysian Peninsula and postage stamp size leaves most American's unsure of its location. Sure, they may have heard the name, but where is it hidden? You can be mildly amused to read some of the mail that comes to the United States Embassy. Addresses include "Singapore, China" and "Singapore, Malaysia." Even if people are not entirely sure where Singapore is located, people around the world know "Singapore."

Working in the Office of Defense Cooperation (ODC) and living in Singapore are daily marvels attesting to what this country has created. With a mere three million people, and virtually no natural resources, Singapore has gone from a sleepy port city (and one with much of its infrastructure in ruins) at the end of World War II to a world leader in many categories. Singapore has built the world's busiest port in terms of daily tonnage. Its airport is consistently rated as one of the world's best. The island incorporates an ultra-modern transportation system without peer. It is the ninth largest trading partner with the United States. It follows only Houston and Rotterdam in terms of amount of oil refined, and is the world's top location for storing oil.

Average Singaporeans earn a median income of $26,000 dollars, ninth largest in the world. Singaporean students are considered to be the world's best educated in math and science. Singapore is rated either first or second as the world's freest economy in which to start a new business. Singapore has been at the forefront of the so-called "Asian Tigers" in converting what had been relatively backward economies into world powerhouses. In virtually every area that a country's prosperity can be measured, Singaporeans have excelled.

Historical race divisions between the Malays and Chinese contributed to the formation of Singapore as an independent country in 1965 when Singapore was forced to leave predominantly Muslim Malaysia in 1965. Today, Singapore is a predominantly Chinese country with 77 percent of the population composed of ethnic Chinese. Malays comprise 14 percent, Indians seven percent, and persons of other ethnic groups make up the remainder of the population.

Bordering the country are Southeast Asian giants. Indonesia, largely Muslim and with over 200 million people is a behemoth. Malaysia follows with 20 million people. Recognizing the reality of the situation, Singapore has sought to maintain good relations with its two neighbors since its independence. There have been bumps in the road, some bigger than others. The recent economic crisis in the region and political and economic difficulties in both Indonesia and Malaysia have brought some strains in Singapore's relationships with its two neighbors. This follows 1997 in which forest fires on the Indonesian Island of Sumatra blanketed Singapore in a thick smoke for months. The fires caused illness, economic disruption, and frustration in every regional country.

A long-term consideration for the country is its own affluence. The downside to such widespread prosperity is that there is a growing decrease in the number of marriages and a consequent decrease in the birth rate. Singapore's population is quickly approaching the point of stagnation and eventual decline. In every year of this decade there has been a decline in the number of people getting married. This has largely been due to the good economic times that the country has enjoyed. As numerous multinational companies have located here, there has been roughly full-employment. As more women have entered the labor force, they have delayed getting married or have put it off entirely. This trend has progressed over the past decade as the median age of the country rose to 32.2 years from 27.8 years of age.

All of this is not a mere recitation of the facts and figures from Singapore's chamber of commerce; these are important assets serving as building blocks for the country's defense. Without the local economy, without the corresponding educational system, without far-sighted leadership, none of the backbone of Singapore's defense architecture would be possible.

Complementing Singapore's vision of itself is its relationship with the United States. Careful planning and a commitment to integrate itself into the security fabric of Asia have resulted in a robust economy enabling Singapore to operate at the leading edge of technology. As Singapore continually searches the globe for the latest in operating capability, the United States has consistently emerged as a security assistance partner. However, the relationship between Singapore and the United States is reciprocal-benefiting the United States as well.

In 1989, America began to withdraw from the Philippines, leaving the United States with no stopping points between Guam in the Western Pacific and Diego Garcia in the Indian Ocean. Both Singapore and the United States recognized an opportunity to strengthen their relationship, continue to ensure regional stability, and lay a firm foundation for a "strategic partnership". On November 13, 1990 Singapore's Prime Minister, Mr. Lee Kuan Yew signed an accord with Vice-

President Quayle to allow American air and naval forces to routinely pass through Singapore and formalize access to facilities in Singapore. The agreement also established the framework for Singaporeans to train in the United States. From a humble beginning, the American-Singaporean partnership has been an important security linchpin ensuring America's continued military presence in the region. Access to facilities in Singapore is a significant foundation for smooth, uninterrupted operations in critical areas of the Indian Ocean and Southeast Asia.

While not every country welcomes the United States as warmly as Singapore has done, Singapore views its position as a stabilizing regional influence very seriously. As part of that equation, Singapore has effectively used its financial strength and partnership with the United States. The government of Singapore has foreign reserves approaching $70 billion United States dollars. Constitutionally, Singapore may spend no more than six percent of its gross domestic product for defense. Typically, spending does not exceed four percent of GDP. That translates into a defense budget annually close to $6 billion Singapore dollars, or roughly $4 billion U.S. dollars.

Singapore and ASEAN

Singapore has worked quietly and firmly through diplomatic channels at all times to try and resolve differences with its neighbors. Much of the regional diplomatic work is accomplished through the Association of Southeast Asian Nations (ASEAN). This diplomatic body currently comprises every nation in the region with the exception of Cambodia, whose membership is pending.

Importantly, the United States recognizes ASEAN's "independent spirit." American protests were ignored in 1997 when Burma was admitted to the body. ASEAN has set its own course. Despite disagreements over the admission of Burma, the body has been remarkable for its ability to provide a forum for member nations to resolve differences without acrimony.

ASEAN has been one of the key institutions that have allowed Asia's "Tiger" economies to prosper. Its members have managed to settle disputes, avoid most public quarrels, and generally get along with each other. This environment has allowed ASEAN nations to focus on economic prosperity instead of being distracted by regional conflicts. Consequently, valuable Singaporean resources can be invested in the economies of its neighbors. Singapore has long felt that its survival would be assured if it was more deeply involved in the economies of other Asian countries. This has led Singaporean companies to invest billions of dollars in Malaysia, Indonesia, Burma, Thailand, and China. Further, through the Asian Pacific Economic Cooperation (APEC) forum and the World Trade Organization (WTO), in addition to ASEAN, Singapore has been a strong proponent of free trade and reducing barriers to world trade and investment.

From a Singaporean perspective, this has resulted in a military focused upon deterrence. This should not imply, however, that Singapore does not continue to face diplomatic and military challenges. Diplomacy will continue to be the cornerstone for Singapore's involvement in the region. As an element of diplomacy, the SAF must be capable of addressing security concerns across the spectrum of conflict. Among regional concerns is the continuing conflict of claims to the Spratly Islands, and continuing territorial and border disputes. Nearly all of the countries on the periphery of the South China Sea have claims on the islands including Vietnam, the Philippines, Malaysia, Brunei, Taiwan, and China. Although Singapore does not have a claim on the islands, the degree of involvement of fellow ASEAN nations could make Singapore's position uncomfortable.

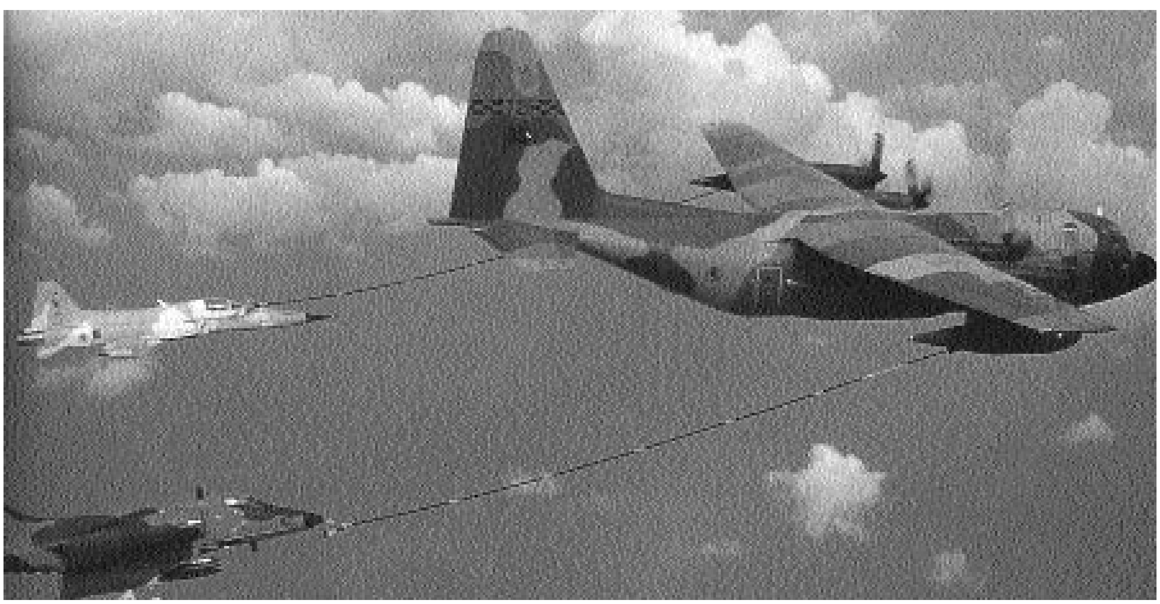
As every other nation would in its own sphere of interest, Singapore views each weapon system introduced into the region with concern. Thus, the introduction of advanced technology weapons, such as theater ballistic missiles and submarines optimized for littoral operations, are potential threats from other regional powers wishing to assert their influence in the region. Because its land size does not give it depth of operations to trade space for time, technology must be harnessed to maximize Singapore's response to threatening crises. Similarly, Singapore's relatively small population cannot successfully counter potential challenges from countries using superior numbers to overwhelm smaller opponents. New technologies and systems introduced into the region equate to capabilities which could place the SAF at a disadvantage. Singapore must be constantly vigilant to ensure that its interests are adequately protected.

Overview of the Armed Forces

Singapore has invested billions of dollars on American security assistance over the last decades. In the past few years, the Singapore's Ministry of Defense (MINDEF) has invested nearly two and-a-half billion dollars in American equipment and training, the majority of that for aircraft. Singapore operates a mix of F-16s, A-4s, F-5s, C-130s, E-2s, CH-47s, UH-1s and, most recently, added KC-135s to their American-built fleet. Further orders have been placed for additional F-16s and CH-47s. As Singapore continues its long-term modernization investment, America will continue to be an ever-strengthening partner. The enduring relationship between Singapore and the United States has been a major factor that consistently ensures the stability of the region and lays the foundation for future growth and prosperity.

Divided into three branches, the SAF is among the most integrated in the world. The Army, Navy, and Air Force are designed and trained to work as a seamless operational force. On a manpower level the Army has 45,000 active duty soldiers. The Navy has 4,500 active sailors and the Air Force possesses 6,000 active airmen. These full-time soldiers are supplemented by as many as 250,000 reservists who can be mobilized on short notice. All able-bodied males, at the age of 18, are required to serve a term in the armed forces, ranging from 24 to 30 months. Those who do not stay on active duty remain reservists up to the age of 40-50, depending upon their rank. These reservists spend up to 40 days a year in training. This philosophy in the view of MINDEF provides maximum impact for every man and woman in uniform. From either a manpower or economic perspective, Singapore cannot afford to duplicate functions. The Singapore Armed Forces Training Institute (SAFTI) is one example underlining seamlessness. This school emphasizes integration of the three services at every level of officer training.

Singapore links this philosophy to combat operations through an advanced (Command, Control, Communications, and Computers) C4 network. Located in the armed forces new headquarters at Bukit Gombak, the military has created a C4 center controlled at the top by a central staff and integrated down to the unit level. This system has features that span the gamut from increased use of fiber-optic transmission lines to the use of Unmanned Aerial Vehicles (UAV) and satellite imagery. The Air Force's RF-5E "Tigereye" tactical reconnaissance fighters augment UAV coverage to plug any holes that exist and ensure that information reaches its needed and intended destinations. Finally, the advent of satellite imagery lays the strategic groundwork for tactical exploitation. The goal is for every platform to be able to transmit and share information resulting in a seamless flow of information from commanders to field units and from the field to the headquarters.



The current fleet of Scout UAVs has performed superbly but is being considered for replacement and upgrade to maintain pace with the advance of technology. In the reconnaissance and surveillance arena, Singapore is considering whether to upgrade or replace its E-2C aircraft. The Republic of Singapore Air Force desires commonality with the United States in addition to strengthening its position on the leading edge of technology. As a result there is interest in multiple C4 systems and additional high-technology systems.

Singapore is unique in the region in that it has forces represented in as many as ten countries worldwide. It recently signed a defense pact with South Africa that will allow for training of troops in South Africa. Because of space limitations for training on the island, Singapore bases a good number of its personnel and hardware overseas. The advantages of bases overseas are numerous. Other countries have room for training not possessed by Singapore. Overseas basing offers Singapore the military perspective of other countries. Additionally, overseas basing allows Singapore to position and maintain its military equipment away from Singapore.

For example, when Singapore bought F-16s, they initially based them exclusively in the United States. The unique dimension of this partnership is a semi-permanent relationship that Singapore shares with the United States. Singapore has four locations in the United States from which training occurs for its military: Luke AFB in Phoenix, Arizona; Cannon AFB in Clovis, New Mexico; McConnell AFB in Wichita, Kansas; and Grand Prairie, Texas, just outside of Dallas. Collectively, these locations conduct training in F-16 fighters, KC-135 tankers, and CH-47 helicopters. The command structure in each location is also integrated with American and Singaporean personnel.

It would be easy, and incorrect, to say that Singapore is the sole beneficiary of this relationship. The Singaporeans have a strong aviation culture that is committed to reducing "risk." As a result, although the concept of risk management is a relatively new phenomenon in the U.S. military, managing risk is deeply ingrained in Singapore's culture. However, the U.S. and Singapore view managing risk somewhat differently. From Singapore's perspective, risk management is designed to limit operations that could possibly go awry. From the U.S. perspective, risk management is a vehicle to ensure that the level of risk is known, controlled if possible, and then accepted by the appropriate level of leadership. Interesting dialogue occurs in briefing rooms and in social settings on what "appropriate risk" means. From Singapore's perspective, however, risk management extends beyond flying into procurement as well.

Because of demographic changes, the portion of the population available for military service is shrinking. This trend has directly translated itself to Singapore's military organization. Infantry battalions have been reduced from 800 to 600 personnel. Armored units have adjusted their manpower from 840 to 730 personnel. However, manpower reductions do not necessarily equate to reduced capability. The new MAN GHH Leguan (8X8) bridge layer requires only two combat engineers for a ten-minute operation compared to the previous thirty-five engineers for an eighty-minute operation. The newer towed artillery pieces require a crew of six, versus previous operations requiring crews of eight for the Soltam M68 and eleven for the M114. The disadvantage to fewer personnel is that initial training becomes more expensive for each individual and personnel losses are tougher to replace.

Simulation is also being used. The Air Force is using simulators for helicopters and A-4 aircraft. The Army has an individual and section marksmanship trainer and close quarters battle building. The Navy has built a damage control tower in addition to various ship simulators and trainers. This complements a trend found in the United States military and evident in Singapore's military to outsource support functions to private enterprise wherever possible.

Singapore is committed to ensuring that it maintains a technology and capability edge. To this end, the construction of the Changi Naval Base will permit operations capable of supporting United States aircraft carriers. This is a significant step forward in supporting the platforms which contribute to regional stability and can counter the Theater Ballistic Missile threat.

Currently, Singapore is conducting a competition for its attack helicopter program. America's entry in the competition is Boeing's Apache AH-64D. Singapore's MINDEF is presently evaluating Boeing's offer along with helicopters from South Africa, Europe, and Russia.

In the future, Singapore will begin phasing out its fleet of A-4s and F-5s. Recent orders for additional F-16's have validated their proven performance to the Air Force, and place them as a competitor for future assets in Singapore's fighter competition to take them well into the twenty-first century.

Defensively, Singapore is upgrading its AB PS-70/R Giraffe 40 radar and is considering an upgrade to its I-Hawk SAM system. In combination with other platforms, Singapore will be able to significantly strengthen its defensive shield.

The Future

In July of 1997, financial difficulties forced the government of Thailand to devalue the Thai baht. The economic tidal waves that were sent across the region have been staggering. Indonesia, Thailand, the Philippines, and Malaysia have all experienced devaluations in their currencies. With its fundamentally sound economy, Singapore's currency has been devalued less dramatically than its neighbors with the result that the Singaporean currency is now much stronger relative to its neighbors.

These financial problems may not spell the end of military equipment purchases in the area, but they have certainly taken the steam out of some of the items being considered. As of this writing, several regional countries have either canceled or delayed projects totaling $1.8 billion. It is clear the amount of money that countries throughout ASEAN can devote to defense spending will be limited for several years to come.

Singapore will continue to possess one of the finest integrated militaries in the region. Singapore's keen sense of diplomacy and economic policy has helped preserve an environment of peace. For a country that has a vivid memory of occupation by the Japanese during World War II, and anti-Chinese riots during the fifties and sixties, they are not willing to put all of their eggs in one basket. Singapore's multiple approach of good economics, sound diplomacy, and a strong deterrence is a strategy that works.

Like Singapore, the United States believes strongly in the synergy of diplomacy, economics, and deterrence to avoid armed conflict. Singapore's commitment for peace, in a partnership that strategically positions America and Singapore for success in the years ahead, appears to be a recipe for success. Security assistance, a key ingredient in this success, should not be overlooked or taken for granted. Strategic partnership is a well-considered strategy to strengthen America's national security strategy. Our relationship with Singapore is an integral part of that strategy.

Harnessing Defense Technology - Singapore's Perspective

By

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[This paper was originally presented at the COMDEF '99 symposium "Defense Cooperation in the Asia-Pacific Region," Melbourne, Australia, 15 February 1999.]

Introduction

Singapore is a small nation with very limited natural resources. Even our most basic needs-water, food and fuel-have to be imported. We depend on external trade for our survival. Our size and circumstances make us vulnerable to the vagaries of the international environment. To ensure that we can continue to survive and provide a good standard of living for our people, it is imperative that Singapore must be prepared for any challenges to its stability and security. We adopt the concept of Total Security, which is the linchpin of our defense and security. Total Security embraces three elements: Diplomacy, Total Defense and Internal Stability.

Military defense is central to Total Defense. A strong armed forces is the ultimate guarantee for our peace and sovereignty. The absence of a credible defense force may be interpreted as a sign of weakness, and may invite aggression. A credible defense force is a necessary assurance to our people and foreign interests alike that Singapore is a safe place to live and to invest.

Given our limitations and constraints, the use of technology as a force multiplier is critical to us to give the Singapore Armed Forces a qualitative edge. Singapore has the necessary conditions to exploit technology. We have a good education system that emphasizes science and technology. But because we are small, there will always be a limit to what we can afford and what we can do by ourselves. To overcome this, we need to source for much of our technology overseas. This means leveraging on foreign expertise and seeking greater cooperation in defense technology with other countries.

"Global strategy for a national capability" is the strategy that we adopt to develop and strengthen our national defense technological capability.

National Capability

In building a national capability we are very selective of the technological capabilities that we would build in the country. We focus only on those areas that will contribute decisively to the battlefield. For example, we focus on electronic warfare, intelligence, command, control and communication, guided systems and systems engineering.

Secondly, for those capabilities that we choose to develop, we aim to develop them to world-class standards. This is so that we are able to bring something to the table when we cooperate with other countries.

Thirdly, we adopt an integrated approach by getting all the various parties such as our defense industry, universities and research institutes involved. We also work closely with other government agencies such as the National Science and Technology Board. Doing so allows us to optimize whatever R&D investment we intend to make, especially expensive R&D infrastructure.

An integrated approach also means that our researchers, scientists and engineers must work very closely with our warfighters who are ultimately the end-users of the technology. We involve our warfighters in every stage of our defense technology planning and management.

Because we are small and we are limited in resources, we put a lot of emphasis on planning. Slightly less than two years ago, we set up a dedicated office called the Directorate of Research and Development to conduct technology master-planning so that we could optimize as much as possible the limited resources that we have.

Lastly, we aim to be a technology application leader, and not a technology leader, because to be a technology leader means doing basic research, for which we lack the resources to do.

Global Strategy

As I have mentioned earlier, Singapore has very limited resources and it is impossible for us to do everything by ourselves. That is why we have to adopt a global strategy in building up our national capability.

A critical aspect of this global strategy is thus to buy whatever and whenever we can. This is a sensible and cost effective approach for us. There is no reason for us to build the system when we could buy it. For example, we will not develop aircraft. Instead, we will be better off by committing our resources to improve these off-the-shelf systems at incremental effort to obtain greatly enhanced performance to meet our specific operational requirements.

The second approach is to be flexible in our dealings with our foreign partners. Singapore is a small country but this has its advantages as well. We respect the sensitivities of our friends and adopt a pragmatic and flexible approach when working with them.

We are constantly searching for global partners. In any cooperation, we firmly believe that both sides must be able to contribute and be able to derive mutual benefits. Only then can the collaboration result in a win-win situation.

Through frequent visits, both incoming and outgoing, we hope to be to give a better understanding of Singapore's limitations and capabilities to our prospective foreign partners. Where there is a need, we also make use of the formal government-to-government mechanisms such as memoranda of understanding (MOUs) and agreements to build up a sustainable relationship. For example, we have set up a joint research fund that is contributed to equally by Sweden and Singapore, in order to encourage collaboration in defense research and development between the two countries.

Examples of Cooperation

Let me now give you some examples of the benefits that we reap from exploiting technology as a force multiplier and from cooperating with other countries.

First Unmanned Air Vehicles (UAV), the Singapore Air Force (SAF) has long recognized the tremendous potential of unmanned air vehicles for battlefield surveillance and reconnaissance. UAV is particularly suitable for the SAF because it is less manpower intensive than human intelligence. Casualties will also be reduced. Reducing casualties is important for Singapore as the bulk of the SAF is made of conscript soldiers and reservists, which we called operational ready National Servicemen. We are mindful that our limited resources do not permit us to work on the entire spectrum of UAVs similar to the comprehensive range of UAVs that U.S. is working on. By and large, the Ministry of Defense will buy and adapt systems to meet our requirements. We are constantly looking out for exploration that could bring technologies into answering our peculiar requirements.

The second example I would like to share with you is how we have exploited training technology. We have very limited air space to train our pilot. Yet at the same time, we want to provide our pilots with realistic training. So, to satisfy the training needs of our pilots, we cooperated with Indonesia to develop a state-of-the-art Air Combat Maneuvering Range in Pekan Bahru, Sumatra in Indonesia. This is a range-less instrumentation to help analyze and assess the performance during combat training. Besides the Air Force, training simulators are also extensively used in the Army and the Navy.

Limited resources and land have driven the SAF to rely more on simulation to train our forces at all levels. Simulation systems are also used for mission rehearsals, tactics and doctrine development. We are now considering simulators for integrated training and joint-service training.

a. Integrated Training. The emphasis in the past has been on stand-alone individual or small combat team training. However, in modern warfare, it is important for an individual/unit to be able to function as a member of a combined operation. Trainers and simulators could be networked together, wherever operationally beneficial and technically viable, to facilitate combined-arms and integrated training.

b. Joint-Service Training. Simulators and training systems could incorporate the capabilities for training across all services. The training systems could be geared towards greater understanding of joint doctrine, tactics and planning procedures. The ultimate goal is to facilitate the creation of a virtual battlefield in which all elements of an actual battle can be exercised and simulated realistically.

By networking simulators together, a simulated battlefield can be created to provide training for large scale exercises thereby reducing the need to conduct live exercises involving real men and real equipment that are very expensive and complicated to organize and run. These simulated battlefield exercises can be conducted as often as desired without incurring huge training costs. Moreover, such networking will facilitate the training of troops in the same exercise scenario even though they may be geographically dispersed at the various overseas training sites.

For the last example, I would like to cite our cooperation with Australia. With Australia, Singapore had signed an agreement on cooperation in defense and technology. We have successfully completed a number of joint projects on areas such as communications and engine performance simulation. Currently, we have an on-going project with Defense Science and Technology Organization (DSTO) on joint experiment test and analysis on ship shock.

Conclusion

In conclusion, I have outlined Singapore's approach in defense technology. Technology is multi-faceted. A strong defense technological capability is defined in several dimensions: the quality of technology in our systems and equipment, our ability to be smart buyers, our ability to do R&D, and the quality of our people. Development of technology therefore requires a multi-pronged approach across a broad front. Technology is always in a state of change. But what is unique today is the rate of technological change. This is where Singapore, being small, has an advantage as we are able to cope with the high rate of modern technological change.

About the Author

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LEGISLATION AND POLICY

Fiscal Year 1999 Security Assistance Legislation

By

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Introduction

This report is the fifteenth in a series of annual legislative studies published in *The DISAM Journal*. This year's report presents a summary and analysis of the legislation impacting on United States security assistance programs in FY1999 and beyond. As in prior years, the report is presented in an extended outline format. This summary approach, together with the use of boldface print to identify key topics, has proven useful for reference purposes in locating specific statutory provisions. DISAM's objective in producing these annual reports is to disseminate important new legislative information to assist security assistance managers and executives throughout the world. This report should enhance their understanding of the changing statutory requirements that implement the policy choices which are reflected in the U.S. security assistance programs.

The FY1999 Legislation

As has been the case many times in recent years, the legislative calendar of the 105th Congress bogged down, and by the start of FY1999, only a single one of the thirteen budget bills had been passed. Six continuing resolutions were passed before the final bills were signed. *The Defense Appropriations Act*, P.L. 105-262 was signed on 17 October 1998. However, successful resolution of difficulties in the Foreign Operations Bill, as well as many other budget categories, dragged on until Congress fashioned the massive FY1999 *Omnibus Consolidated and Emergency Appropriations Act* which included funding for eight of the thirteen appropriations acts required for financing federal government operations and activities. The President signed this legislation on 21 October 1998 as P.L. 105-277. Within this umbrella bill, what would normally be a separate *Foreign Operations Appropriations Act* was included in a section which may be cited as the *Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999.* However, legislation of interest to the security cooperation community is found throughout the Omnibus Act. Since Congress failed to enact a foreign affairs authorization act, the required enabling authorities had to be incorporated as well.

In general, the FY1999 appropriations for security assistance vary little from the FY1998 figures. The only category with substantial change was the amount dedicated to nonproliferation, anti-terrorism and demining. For the basic security assistance programs, the most significant change is in the formula used to calculate the amounts provided for ESF and FMFP for Israel and Egypt. After twelve years of a constant figure being provided to both countries, following a request of the Israeli government, Congress moved to start a decade-long effort to phase out ESF for Israel and reduce funding to Egypt by 50 percent.

The much-debated legislative proposals for consolidating the Arms Control and Disarmament Agency and the U.S. Information Agency within the Department of State were also enacted in 1999. The changes in the foreign-policy apparatus are described in a section of the Omnibus Act entitled the *Foreign Affairs Reform and Restructuring Act of 1998*.

Similar reorganization regarding the disestablishment of the Defense Technology Security Administration and the creation of the Deputy Undersecretary of Defense for Technology Security Policy is found in the *Strom Thurmond National Defense Authorization Act for Fiscal Year 1999*, P.L. 105-261. Reflecting the heightened interest this Congress has shown in maintaining safeguards over technology transfer, this Act also contains shifts in the release authority for satellites and related items from the Commerce Department to the State Department by mandating their inclusion on the U.S. Munitions List.

With little success forthcoming in the political situation in Iraq, Congress devoted much effort to identifying and providing funding for political opposition groups in that country. Consequently, associated legislative mandates are found throughout the body of legislation dealing with foreign operations.

In an effort to come to grips with the entire spectrum of training provided to foreign militaries under any auspices, not just security assistance programs, Congress mandated the preparation of a monumental report describing all defense related training provided in FY1998 and a forecast for of FY1999. It has become obvious that restrictions placed on IMET training were not applied to all other methods of delivery, and this report aims to describe all possible methods of training which are conducted for foreign militaries.

More detailed description of these and other changes included in the legislation are found below.

Reference Sources: The following abbreviated titles are used in this report to identify the principal sources of information used herein.

- **AECA**: Arms Export Control Act, as amended.

- **FAA**: Foreign Assistance Act of 1961, as amended.

- **P.L. 105-277**: *FY1999 Omnibus Consolidated and Emergency Supplemental Appropriations Act* 1999, 21 October 1998.

- **FY1999 Congressional Presentation:** The Secretary of State, *Congressional Presentation (CP) for Foreign Operations, Fiscal Year 1999.*

- **Conference Report:** Conference Report on H.R. 4328, *Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999,* as published in the Congressional Record, 19 October 1998, pp. H11355 - H11545. This reports agreements of the conferees developed through negotiations on the difference in the House and Senate versions of H.R. 4569, the *Foreign Operations, Export Financing, and Related Programs Appropriations Act , 1999.*

FY1999 Funding Allocations

Following the enactment of the annual appropriations for foreign operations, the

Table 1

SECURITY ASSISTANCE PROGRAM APPROPRIATIONS
FISCAL YEARS 1998 AND 1999 FUNDING LEVELS
(Dollars in Millions)

	P.L. 105-118 26 Nov 97 FY1998 Funding	FY1999 Budget Request	S.2334 2 Sep 98 Senate Proposal	H.R. 4569 17 Sep 98 House Proposal	P.L. 105-277 21 Oct 98 FY1999 Funding
FMFP	$3,548.728	$3,442.910	$3,489.910	$3,502.910	$3,497.000 [1]
[Grants]	[3,348.728]	[3,275.910]	[3,322.910]	[3,335.910]	[3,330.000]
[Loans]	[200.000]	[167.020]	[167.000]	[167.000]	[167.000] [1]
(Subsidy)	(12.340)	(20.000)	(20.000)	(20.000)	(20.000)
IMET	50.000	50.000	50.000	50.000	50.000
ESF	2,419.600	2,513.600	2,305.600	2,326.000	2,436.600
PKO	77.500	83.000	75.000	62.250	76.500
TOTALS	**6,095.828**	**6,088.91**	**5,920.510**	**5,941.160**	**6,060.100**

[1] These FMFP totals reflect the sum of all direct grant appropriations excluding the load subsidy plus the actual value of the loan programs.

[2] The FY1999 FMFP loan program provides $20M in loan subsidy funding to support a maximum of $167M in direct loans issued at current average treasury rates of interest. These loans are restricted to Poland, Hungary, and the Czech Republic.

Administration is tasked with specifying the amount of appropriations to be allocated among each eligible foreign country and international organization. Pursuant to the requirements of §653, AECA, the Administration must notify Congress of these funding allocations within 30 days following the enactment of "any law appropriating funds to carry out any provision" of the AECA. These allocations distribute the funds that Congress has not specifically earmarked for particular countries and programs. Where available, these allocations are included below to indicate the policy choices made for the funds appropriated.

***FY1999 Omnibus Consolidated and Emergency Supplemental Appropriations Act*, 21 October 1998, P.L. 105-277.**

- **Foreign Military Financing Program (FMFP), Title III, Military Assistance**

  - ***FMFP Grant Earmarks***

    • Breaking with the tradition of the past twelve years, FMFP grant funding for FY1999 has been raised for Israel to $1.86 billion while the earmark for Egypt remains at $1.3 billion. This represents the new policy whereby Israel forsakes ten percent of its usual ESF budget, while moving half this amount to FMFP.

    • The earmarks for these two FMFP grant countries total $3,160M and represent nearly 95 percent of FY1999 grant FMFP funding.

- ***Special FMFP Provisions for Israel***

  • As in past years, Congress continued to attach two special provisions to the FMFP appropriation for Israel. These provisions permit significant utility and flexibility in Israel's use of these grant funds.

  • The first such provision directs the disbursement of Israel's entire FMFP account to occur within 30 days of the enactment of P.L. 105-277, i.e., by 21 November 1998.

  • Secondly, not less than $490M of Israel's FMFP appropriation is available in FY1999 for "the procurement in Israel of defense articles and defense services, including research and development." This provision represents an exception to the general restriction on the use of FMFP funds by recipient countries to finance offshore (i.e., non-U.S.) procurements (OSP). To implement this special provision, Israel and the United States must agree on the weapon systems for which these funds will be used. This represents an increase of $15M over last year’s OSP authority of $475M, representing 25 percent of the total FY1999 FMFP increase of $60M for Israel.

- ***Assistance for Jordan***

  • Congress earmarked $45M in grants for Jordan. In addition, the President is authorized to identify and direct drawdowns of defense articles and defense services from DoD stocks, services, and military education and training "of an aggregate value of not less than

$25M," to be provided on a grant basis for assisting Jordan. Section 506(c) of the FAA applies, but Section 632(d) does not apply to this drawdown. This represents a decrease of $5M from the total grant and drawdown authority of $75M for Jordan in FY1998.

- ***Assistance for Tunisia***

  - Tunisia received a grant of $7M, of which up to $5M can be in drawdowns.

- ***Assistance for Georgia***

  - The Conference Committee recommended that sufficient FMFP funds be made available to Georgia to complete the the funding for the transfer of UH-1H helicopters.

- ***African Crisis Response Initiative***

  - The Conference Committee supported the full request for the African Crisis Response Initiative so that the funds could be utilized to foster the growth of democracy and the protection of human rights in Africa. It is the opinion of the committee members that the funds should not be directed to undemocratic governments with a history of human rights abuses by their militaries.

- ***Countries Prohibited/Restricted from Receiving FMFP Funding***

  - For FY1999, no FMFP funding may be provided to Guatemala, Sudan and Liberia; all three countries have been similarly prohibited from receiving FMFP funds for the last three years.

- ***FMFP Loans*** (repayable credits)

  - In addition to non-repayable grants, repayable loans are another key component of the annual FMFP appropriation. These loans require repayment at prevailing Treasury rates of interest (i.e., rates "not less than the current average market yield on outstanding marketable obligations of the United States of comparable maturities"). The AECA, §23(b), requires that all such direct loans be repaid within a period not to exceed twelve years unless otherwise directed by specific legislation; historically, Congress has authorized longer repayment terms (e.g., 30 years) for specific countries.

The authorization of $167M in Central European Defense Loans is anchored by an appropriation of $20M subsidy budget authority. The FY1999 CP requests FMFP loans for acquisition of NATO-compatible equipment for those countries destined to join NATO in March 1999. If accepted by the Czech Republic, this envisions a loan for the Regional Airspace initiative through which radar, aircraft communications and navigation systems, and airfield infrastructure improvements will be acquired. The proposed Hungarian loan program is to assist in their armed forces restructuring efforts in becoming a more defensively oriented, Western-style force capable of working side-by-side with U.S. and NATO. If Poland accepts their authorized loan, it may be used in downsizing, modernization, and professionalization of their armed forces.

Table 2

FOREIGN MILITARY FINANCING PROGRAM GRANT FUNDING
FY 1999 Allocation
(Dollars in Millions)

Country/Program by Geographical Region	FY1998 FMFP Grant Funding	FY1999 Budget Request	FY1999 FMFP Grant Funding
NEAR EAST			
Egypt	$1,300.000	$1,300.000	$1,300.000
Israel	1,800.000	1,800.000	1,860.000
Jordan	50.000	45.000	45.000
Morocco			2.000
Tunisia			2.000
Subtotals, Near East	**3,150.000**	**3, 145.000**	**3,209.000**
EUROPE & THE NIS			
Albania	1.700	2.000	2.000
Bosnia			4.000
Bulgaria	4.200	6.000	6.000
Czech Republic	15.800	7.500	2.500
Estonia	8.300	4.700	3.700
FYROM	19.257	6.000	6.000
Georgia	5.250	1.650	1.650
Hungary	15.800	7.500	2.500
Kazakstan	2.250	1.750	1.800
Kyrgyzstan	1.350	1.300	1.550
Latvia	6.950	4.700	3.700
Lithuania	6.950	4.700	3.700
Moldova	3.450	0.850	0.850
Poland	23.700	10.000	2.000
Romania	3.200	2.300	4.000
Russia	2.250	1.500	1.500
Slovakia	3.200	2.300	2.300
Slovenia	2.500	2.500	2.600
Turkmenistan	0.450	0.600	0.600
Ukraine	3.800	3.400	3.400
Uzbekistan	1.550	1.950	1.650
Central Europe Defense Loans Subsidy	12.340	20.000	20.000
Subtotals, Europe & NIS	**155.047**	**100,000**	**78,000**

Table 2 (Continued)

FOREIGN MILITARY FINANCING PROGRAM GRANT FUNDING
FY 1999 Allocation
(Dollars in Millions)

Country/Program by Geographical Region	FY1998 FMFP Grant Funding	FY1999 Budget Request	FY1999 FMFP Grant Funding
LATIN AMERICA			
Caribbean Regional	3.000	3.000	3.000
Subtotal, Latin America	**3.000**	**3.000**	**3.000**
AFRICA			
Africa Crisis Response Force	12.000	5.000	5.000
East Africa Regional	5.000	5.000	5.000
Subtotal, Africa	**17.000**	**10.000**	**10.000**
MISCELLANEOUS			
Defense Admin Expenses	29.021	29.910	29.910
Enhanced International Peacekeeping	7.000	8.000	7.000
Unallocated			13.090
Subtotal, Miscellaneous	**36.021**	**37.910**	**50.000**
TOTAL GRANT PROGRAM	**$3,348.728**	**$3,275.910**	**$3,350.000**
EUROPE & THE NIS			
Central Europe Defense Loans	100.000	167.000	167.000
TOTAL LOAN PROGRAM	**$100.000**	**$167.000**	**$167.000**
TOTAL GRANT PROGRAM	**$3,348.728**	**$3,275.910**	**$3,330.000**
TOTAL LOAN SUBSIDY	**12.340**	**20.000**	**20.000**
PROGRAM TOTALS [1]	**$3,448.728**	**$3,442.910**	**$3,497.000**

[1] These program totals reflect the sum of all direct grant appropriations excluding the loan subsidy of $20M plus the actual value of the loan programs.

• ***Loans for Greece and Turkey***

FY1999 saw the end of Greece and Turkey FMFP loan program altogether. FY1997 was the last year either country were offered and accepted FMFP loan funding. FY1998 legislation authorized FMFP loan funding for both countries but the Administration decided not to offer the loans and converted the associated appropriated subsidy to grant funding for other countries. The U.S. will continue to support American equipment in the respective inventories through providing Excess Defense Articles and IMET.

• ***Funding for the General Costs of Administering Military Assistance***

• The FMFP appropriations account also includes funds that are used to finance certain military assistance administration costs. As identified in the *FY1999 Congressional Presentation for Foreign Operations*, these "Defense Administrative Costs" represent the costs to manage the non-FMS segments of security assistance programs as authorized under the AECA and the FAA. These functions include staffing headquarters, personnel management, budgeting and accounting, office services and facilities, and support for non-FMS functions of SAOs. Activities covered by Defense Administrative Costs include administration of the IMET program, management of drawdowns of military equipment, grant transfers of EDA, monitoring end items previously transferred, and full cost recovery associated with International Cooperative Administration Support Services (ICASS). For FY1999, Congress approved the Administration's request for funding at the $29.91M level.

• ***FMS Administrative Budget***

• This *non-appropriated* budget supports the administrative expenses of security assistance organizations, agencies, military departments, etc., related to the implementation of foreign military sales. The FMS Administrative Budget is funded by surcharges which are added to all FMS cases in order to recover United States Government expenses for the following activities: sales negotiation, case implementation, program control, computer programming, accounting and budgeting, and administration of the FMS Program at command headquarters and higher levels. The funds derived from these charges provide the basic financial resources used in the administration of the Foreign Military Sales Program. Though it remains a non-appropriated funding source, Congress nevertheless followed its current practice of limiting annual administrative expenditures to a specified ceiling. For FY1999, Congress approved an operating budget ceiling of $340M.

• **International Military Education and Training (IMET), Title III, Military Assistance**

• The Administration requested $50M for the FY1999 IMET Program, a figure agreed on by both Congressional committees, and this is the amount that was appropriated. Of this amount, $1M remains available until expended. (See Table 3 for IMET country and program funding.)

• ***Civilian Participation in IMET***

• The Act provides authority for IMET participation by civilian personnel who are not members of a government if their "participation would contribute to improved civil-military relations, civilian control of the military, or respect for human rights." Similar authority is provided in §541, FAA.

• ***School of the Americas***

• The Secretary of Defense must certify that "the instruction and training provided by the School of the Americas is fully consistent with training and doctrine, particularly with respect to

Table 3

International Military Education and Training (IMET)
FY1998 and FY1999 Funding
(Dollars in Thousands)

Country/Program by Geographical Region	FY1998 IMET Allocations	FY1999 Funding Request	FY1999 IMET Allocated
AFRICA			
Angola		175	50
Benin	376	350	350
Botswana	540	450	500
Cameroon	142		150
Cape Verde	153	100	100
Central African Republic	142	90	90
Chad	99	50	50
Comoros	101	75	75
Congo		70	70
Cote d'Ivoire	211	150	150
Djibouti	103	100	100
Eritrea	409	425	425
Ethiopia	259	575	525
Gabon		50	50
Ghana	288	400	400
Guinea	70	150	150
Guinea-Bissau	64	125	125
Kenya	443	400	400
Lesotho	81	75	75
Liberia		100	0
Madagascar	146	100	100
Malawi	284	335	335
Mali	265	280	280
Mauritius	63	50	50
Mozambique	178	180	180
Namibia	203	175	175
Rwanda	473	300	300
Sao Tome & Principe	74	75	75

Table 3 (Continued)

International Military Education and Training (IMET)
FY1998 and FY1999 Funding
(Dollars in Thousands)

Country/Program by Geographical Region	FY1998 IMET Allocations	FY1999 Funding Request	FY1999 IMET Allocated
Senegal	815	735	735
Seychelles	79	75	75
Sierra Leone			75
South Africa	804	800	850
Swaziland	93	75	75
Tanzania	185	150	150
Togo	35	50	0
Uganda	357	400	400
Zambia	143	150	150
Zimbabwe	335	300	300
Africa Totals	**8,014**	**8,140**	**8,140**
EAST ASIA AND PACIFIC			
Indonesia	476	400	550
Malaysia	939	700	700
Mongolia	391	425	425
Papua New Guinea	139	200	200
Philippines	1,278	1,350	1,350
Solomon Islands	112	150	150
Thailand	1,985	1,600	1,600
Tonga	99	100	100
Vanuatu	93	100	100
Western Samoa	96	100	100
Regional Totals	**5,608**	**5,125**	**5,275**
EUROPE & THE NIS			
Albania	613	600	600
Belarus	61	100	0
Bosnian & Herzegovina	600	600	600
Bulgaria	950	950	950
Croatia	497	425	425
Czech Republic	1,430	1,350	1,350
Estonia	723	650	650
Georgia	416	380	392
Greece	31	25	25

Table 3 (Continued)

International Military Education and Training (IMET)
FY1998 and FY1999 Funding
(Dollars in Thousands)

Country/Program by Geographical Region	FY1998 IMET Allocations	FY1999 Funding Request	FY1999 IMET Allocated
Hungary	1,347	1,500	1,500
Kazakhstan	587	550	564
Kyrgyzstan	336	325	333
Latvia	751	650	650
Lithuania	664	650	650
Macedonia	457	450	450
Malta	91	135	135
Moldova	460	450	461
Poland	1,318	1,600	1,600
Portugal	844	700	700
Romania	1,094	1,025	1,025
Russia	732	900	920
Slovakia	621	600	600
Slovenia	654	650	650
Turkey	1,505	1,500	1,500
Turkmenistan	336	300	307
Ukraine	1,250	1,250	1,278
Uzbekistan	457	485	485
Europe & NIS Totals	**18,825**	**18,800**	**18,800**
AMERICAN REPUBLICS			
Antigua-Barbuda	123	115	115
Argentina	607	600	600
Bahamas	110	100	100
Barbados	60	90	90
Belize	304	250	250
Bolivia	570	550	550
Brazil	220	225	225
Chile	453	450	450
Colombia	863	800	900
Costa Rica	241	200	200
Dominica	40	40	40
Dominican Republic	556	500	500
Ecuador	534	500	500

Table 3 (Continued)

International Military Education and Training (IMET)
FY1998 and FY1999 Funding
(Dollars in Thousands)

Country/Program by Geographical Region	FY1998 IMET Allocations	FY1999 Funding Request	FY1999 IMET Allocated
El Salvador	512	500	500
Grenada	58	50	50
Guatemala	225	225	225
Guyana	181	175	175
Haiti	290	300	300
Honduras	500	500	500
Jamaica	504	500	500
Mexico	921	1,000	1,000
Nicaragua	74	200	200
Panama Canal Area Military School (PACAMS)	550	550	300
Panama		100	100
Paraguay	216	200	200
Peru	462	450	450
St. Kitts-Nevis	65	55	55
St. Lucia	45	50	50
St. Vincent & the Grenadines	50	50	50
Suriname	82	100	100
Trinidad & Tobago	133	125	125
Uruguay	321	300	300
Venezuela	386	400	400
American Republics Totals	**10,256**	**10,250**	**10,100**
NEAR EAST			
Algeria	126	125	125
Bahrain	251	225	225
Egypt	1,000	1,000	1,000
Jordan	1,600	1,600	1,600
Lebanon	550	550	550
Morocco	907	900	900
Oman	217	225	225
Tunisia	900	900	900
Yemen	142	125	125
Near East Totals	**5,693**	**5,650**	**5,650**
SOUTH ASIA			
Bangladesh	325	350	350
India	177	450	450

Table 3 (Continued)

International Military Education and Training (IMET)
FY1998 and FY1999 Funding
(Dollars in Thousands)

Country/Program by Geographical Region	FY1998 IMET Allocations	FY1999 Funding Request	FY1999 IMET Allocated
Maldives, Republic of	101	100	100
Nepal	196	200	200
Pakistan		350	350
Sri Lanka	225	200	200
South Asia Totals	**1,024**	**1,650**	**1,650**
NON-REGIONAL			
General Costs	580	385	385
Non-Regional Totals	**580**	**385**	**385**
FY 1999 IMET TOTAL	**$50,000**	**$50,000**	**$50,000**

the observance of human rights, provided by the Department of Defense to United States military students of Department of Defense institutions whose primary purpose is to train United States military personnel."

The Conference Committee makes the obligation of IMET funds contingent upon the secretarial certification above. In addition, training provided by the School of the Americas during FY 1998 and 1999 would be included in the general training report required by Section 581 of the Appropriations Act.

- ***Indonesia and Guatemala***

  - The legislation limits both Indonesia and Guatemala to Expanded IMET funded training only. With respect to Guatemala, IMET funds may only be made available to the Government of Guatemala following a 15-day prior notification of the House and Senate Appropriations Committees.

  - The limits on grant training provided to Indonesia is in line with the Conference Committee's desire to support a peaceful resolution to the situation in East Timor. The conferees believe that the limitation of training to E-IMET would bolster efforts by the Indonesian government to respect and protect human rights and democratic pluralism.

- **Economic Support Fund (ESF), Title II, Bilateral Economic Assistance**

  - The Administration requested $2,563.6M for the ESF Program for FY1999; however, only $2,436.6 was appropriated. (See Table 4 which identifies congressionally earmarked funding for FY1998 and FY1999.)

Table 4

Economic Support Fund (ESF)
FY 1998 and FY1999 Funding
(Dollars in Thousands) (E=Earmark) (C = Ceiling)

Country/Program by Geographical Region	FY1998 Actual Funding	FY1999 Budget Request	FY1999 Allocated Funding
MIDDLE EAST			
Egypt	815,000 E	815,000	775,000 E
Israel	1,200,000 E	1,200,000	1,080,000 E
Jordan	24,330	150,000	150,000 E
Lebanon	12,000	12,000	12,000
Middle East Democracy	3,680	4,000	2,500
Middle East Development Bank		52,000	
Middle East Peace Process Multilaterals	3,5000	5,000	3,000
Middle East Regional	7,000	7,000	6,000
Iraq Opposition	5,000		3,000
West Bank-Gaza	85,000	100,000	75,000
Regional Totals	**2,155,510**	**2,143,000[1]**	**2,106,500**
EUROPE and the NIS			
Albania		10,000	
Cyprus	15,000 E	15,000	15,000 E
Ireland	19,600 E	19,600	19,600 E
Bosnia Demining	2,000		
Republica Srpska	5,000		
Regional Totals	**41,600**	**44,600**	**34,600**

Table 4 (Continued)

Economic Support Fund (ESF)
FY1998 and FY1999 Funding
(Dollars in Thousands) (E=Earmark) (C = Ceiling)

Country/Program by Geographical Region	FY1998 Actual Funding	FY1999 Budget Request	FY1999 Allocated Funding
SUB-SAHARAN AFRICA			
Africa Regional Fund	$5,000	$15,000	$15,000
Angola	5,000	2,000	
Liberia		5,000	
Democratic Rep. of Congo	9,500	8,000	
Kenya (bombing victims)	850		
Tanzania (bombing victims)	150		
Rwanda-Burundi VOA	500		
South Africa Internships	250		
South African Development Community Initiative		2,000	2,000
Education	5,000	10,000	10,000
Great Lakes Initiative		25,000	25,000
FY 99 Emergency Supp.		50,000	50,000
AfricaTotals	**26,250**	**117,000**	**102,000**
SOUTH ASIA			
Pakistan	3,000		
South Asia Democracy	3,000	2,750	2,750
South Asia Totals	**6,000**	**2,750**	**2,750**
LATIN AMERICA & CARIBBEAN			
AOJ/ICITAP [2]	9,930	10,000	10,000
Guatemala	25,000	25,000	25,000
Haiti	70,000	140,000	70,000
Latin American Regional	11,047	13,000	13,000
Peru/Venezuela Elections	250		
Vital Voices	100		
Latin America Totals	**116,350**	**188,000**	**118,000**
EAST ASIA AND PACIFIC			
ASEAN Regional Forum	250	250	250

Table 4 (Continued)

Economic Support Fund (ESF)
FY 1998 and FY1999 Funding
(Dollars in Thousands) (E=Earmark) (C = Ceiling)

Country/Program by Geographical Region	**FY1998 Actual Funding**	**FY1999 Budget Request**	**FY1999 Allocated Funding**
ASIAN Environment Initiative	4,000	4,000	4,000
Asia Regional Fund	3,950	5,000	2,300
Burma	3,500		3,500
Cambodia	10,000	20,000	10,000
Indonesia Forest Fires	800		
Korea Peninsula Energy Development Org.	12,000		
Mongolia	8,000	6,000	
South Pacific Environment	200		
So. Pacific Fisheries Treaty	14,000	14,000	14,000
Thai/Indonesia Financial Technical Assistance			5,000
Treasury Tech Assistance	300	———	———
East Asia and Pacific Totals	**57,000**	**49,250**	**39,050**
NON-REGIONAL			
Human Rights and Democracy	7,820	9,000	9,000
Holocaust Victims Trust Fund	4,000	10,000	10,000
Export Controls	4,000		
Unallocated	1,070	———	14,700
Non-Regional Totals	**16,890**	**19,000**	**33,700**
TOTAL ECONOMIC SUPPORT FUNDS	**$2,419,600**	**$2,563,600**	**$2,436,000**

[1] The FY 99 request for the ME totaled $2.345 billion. However, a formula was developed so that final spending was not to exceed $2.143 billion.
[2] AOJ/ICITAP - Administration of Justice/International Criminal Investigation Training Assistance Program of the U.S. Department of Justice.

- ***Assistance for Israel***

  - This year's appropriation earmarks $1,080M for Israel and $775M for Egypt. This is a significant break with the levels for these two countries that have prevailed for the last twelve years. The Conference Committee thanked Israeli Prime Minster Netanyahu and the Government of Israel for their proposal to eliminate economic aid over the next decade. In recognition of Israel's economic growth, technological advances, and financial progress, the Conference Committee recommended a phased reduction in Israel's economic assistance, implemented in equal increments of $120M per year for a period of ten years. The result will be the elimination of ESF for Israel. However, realizing the security threats in the Middle East, the Conference Committee proposed transferring half of the ESF reduction to military assistance, thus enabling Israel to fully ensure its security. The committee members presume that the $60M increase in the FMF budget for FY1999 will be continued each year by future congresses as the ESF diminishes.

  - In addition, the Conference Committee deleted a Senate declaration of policy that the annual appropriations for ESF will not be less than the annual debt repayment of Israel to the U.S. (the “Cranston Amendment” which first appeared in 1983). The conferees agreed that, in light of the agreement to phase out ESF, this requirement was no longer necessary.

  - The ESF funding for Israel is once again to be made available as a cash transfer and is stipulated to be disbursed no later than 31 October 1998.

- ***Assistance for Egypt***

  - With respect to Egypt, the Conference Committee noted Egypt's critical role in the Middle East and essential role in the peace process. Egypt's economic and security needs are unique and distinct from other countries in the region. The Conferees decided that Egypt's overall budget requirements must be reduced to meet current budget requirements. Thus the conference Committee proposed reducing Egypt's ESF budget in equal increments to reach a level half of the 1998 level in ten years. Consequently, the Committee recommended an appropriation of $775M for Egypt's share of ESF for FY1999, which is $40M less than prior years’ funding.

  - Cash transfer of Egypt’s grant ESF appropriation is also again authorized for FY1999, "with the understanding that Egypt will undertake significant economic reforms which are additional to those which were undertaken in previous fiscal years."

- ***Assistance for Jordan***

  - Provisions were made for not less than $150M to be provided to Jordan. The Conference Committee commended Jordan's constructive and critical role in the peace process, and the ESF should permit Jordan to continue in its efforts in both the economic and security areas. The Committee also encouraged Jordan to continue its ongoing economic reform program.

- ***Assistance for Victims of the Holocaust***

  - In an effort to see that the legacy of the Holocaust is addressed in a constructive manner and that a measure of justice and redress is provided to the survivors of the Holocaust, not more than $10M was appropriated for support of Holocaust victims. The funds will be a United States contribution to the Holocaust Victims Redress Fund through the "Special

Persecutee Relief Fund Account" established in the Federal Reserve Bank of New York. This will be part of an expected contribution by the U.S. of $25M over a three-year period. Prior year ESF recoveries of $4M were allocated to the Holocaust Victims Redress Fund in 1997.

• ***Assistance for Eastern Europe and the Baltic States (Title II)***

• For FY1999, Congress has appropriated $430M for economic assistance and related programs for Eastern Europe and the Baltic States to carry out the provisions of the FAA and the Support for Eastern European Democracy (SEED) Act of 1989. This is a decrease of $55M above the $485M appropriated for this account for FY1998. Several stipulations relating to assistance for the Federation of Bosnia and Herzegovina, as proposed by the House, are attached to this account and are discussed below.

• Not more than $200M of this account funds may be made available may be made available for Bosnia and Herzegovina

• However, as in FY1998, none of these FY1999 funds may be used "for new housing construction or repair or reconstruction of existing housing in Bosnia and Herzegovina unless directly related to efforts of United States troops to promote peace in said country."

• Also, the President is authorized to withhold economic revitalization program funds for Bosnia and Herzegovina if he determines and certifies to the House and Senate Appropriations Committees that:

• (1) the Federation of Bosnia and Herzegovina has not complied with the 1995 Dayton Agreement [Article III of Annex 1-A, *General Framework Agreement for Peace* in *Bosnia and Herzegovina*] regarding the withdrawal of foreign forces; and that,

• (2) "intelligence cooperation on training, investigations, and related activities between Iranian and Bosnian officials has not been terminated."

• ***Assistance for the New Independent States (NIS) of the Former Soviet Union (FSU) (Title II)***

• For FY1999, Congress appropriated $801M for the NIS and for related programs, an increase of $31M (or 4%) above the $770M appropriated for FY1998. As in prior years, a wide array of special conditions and funding earmarks are attached to this account, as the following examples illustrate:

• (a) Of the funds allocated for **Russia**, fifty percent shall be withheld from obligation until the President determines and certifies to the Congress that the Government of Russia has terminated implementation of arrangements to provide Iran with technical expertise, training, technology, or equipment necessary to develop a nuclear reactor, related nuclear research facilities or programs or ballistic missile capability. However, such funds may be made available to Russia if the President certifies to Congress that to do so

(1) is vital to the national security interest of the U.S. and

(2) that the Government of Russia is taking meaningful steps to limit major supply contracts and to curtail the transfer of technology and technological expertise to Iran.

- (b) Not less than $195M shall be made available for **Ukraine**.

(1) Not less than $25M of such funds should be dedicated to nuclear reactor safety programs, of which not less than $1M shall be available for personnel security initiatives at all nuclear reactor installations.

(2) Fifty percent of the funds under this subsection, exclusive of those for nuclear safety and law enforcement reforms, shall be withheld from obligation and expenditure until the Secretary of State reports to the Committees on Appropriations that Ukraine has undertaken significant economic reforms in addition to those achieved in FY 1998 and include reform and effective enforcement of commercial and tax codes and continued progress on the resolution of complaints by United States investors. This report will be provided 120 days after enactment.

- (c) Funds made available for assistance to **Mongolia** in FY1999 will be at a level at least equivalent to that of FY 1998 (i.e., $12 M).

- (d) For FY1999, not less than $228M shall be made available for the **Southern Caucasus Region**, with funding ceilings as follows:

  - (1) Seventeen and one-half percent of this funding (or $39.9M) "should be used for reconstruction and other activities relating to the peaceful resolution of conflicts within the region, especially those in the vicinity of **Abkhazia** and **Nagorno-Karabakh**." [Abkhazia is a former autonomous republic located in the northwest portion of the Republic of Georgia. Separatists in this region have been deeply involved in a conflict with the Government of Georgia. Ngorno-Karabakh is an Armenian enclave in the Republic of Azerbaijan that has been similarly engaged in separatist conflict.]

  - (2) Thirty-five percent ($79.8M) shall be made available for assistance in **Armenia**, and of these funds not less than 12 percent shall be made available for an endowment for the American University in Armenia.

  - (3) Thirty-seven percent ($84.36M) shall be made available for Georgia.

- ***International Fund for Ireland (Title II)***

  - As in the past several years, Congress appropriated $19.6M in ESF for the International Fund for Ireland.

  - In 1986, the British and Irish government established the International Fund for Ireland to permit contributors to demonstrate support for the Anglo-Irish Agreement of 1985. The European Union is the major contributor to the Fund, and contributions are also received from Canada, Australia, and New Zealand, as well as the United States. The Fund has promoted peace by contributing to the creation of thousands of jobs and by improving the economic situation of Northern Ireland and the border counties of Ireland, addressing needs in both Catholic and Protestant communities.

• Miscellaneous Appropriations and Related Provisions, Title II, Bilateral Economic Assistance

- ***Funding for Cyprus***

• For FY1999, as in the three previous fiscal years, the annual $15M funding earmarked for Cyprus has been designated to be drawn from the annual Economic Support Fund and the Development Assistance appropriations accounts. The final allocation of $15M was made from ESF.

• The purpose of this funding for Cyprus remains unchanged: the funds are to be used only for scholarships, administrative support of the scholarship program, bicommunal projects, and measures aimed at reunification of the island and designed to reduce tensions and promote peace and cooperation between the two communities on Cyprus

- ***Funding for Burma***

• As with Cyprus, an earmark of not less than $6.5M is to be drawn from both the Development Assistance and Economic Support Fund accounts for FY1999 to support democracy and humanitarian activities in Burma, along the Burma-Thailand border, and for activities of Burmese student groups and other organizations located outside Burma. Only $3.5M was allocated through ESF.

- ***Funding for Indonesia***

• Not less than $75M may be made available to Indonesia from both the Economic Support Fund and the Development Assistance Fund, provided that not less than $15M goes to activities administered by the Office of Transition Initiatives. Of the amount made available, up to $25M may be derived from funds that are available for obligation pursuant to section 511 of this Act or any comparable provision of the law. Ultimately none of these funds was made available from ESF.

- ***Funding for Cambodia***

• None of the funds appropriated by this Act may be used until the Secretary of State repots to Congress that the Government of Cambodia has

(1) Credibly resolved all election-related disputes and complaints filed with the National Election Commission and the Constitutional Council;

(2) Discontinued all political violence and intimidation of journalists and opposition parties;

(3) Been formed through credible democratic elections.

• These restrictions do not apply to demining or activities administered by nongovernmental organizations.

• ***Nonproliferation, Anti-Terrorism, Demining, and Related Programs (NADR), Title II, Bilateral Economic Assistance***

• This section funds many activities provided for in various pieces of legislation. The funds support anti-terrorism assistance authorized by the FAA, funding of the Nonproliferation and Disarmament Fund (NDF) as described in the FREEDOM Support Act, demining activities under the FAA and AECA, and voluntary contributions to the Korean Peninsula Energy Development Organization (KEDO), International Atomic Energy Agency (IAEA), and Comprehensive Nuclear Test Ban Treaty Preparatory Commission.

• FY1999 appropriations for the NADR account total $198M. Of this amount, not more than $15M can be made available for the Nonproliferation and Disarmament Fund, and $35M should be made available for demining, clearance of unexploded ordnance, and related activities. The allocation of fund for this section is shown in Table 5.

Table 5

Nonproliferation, Anti-terrorism, Demining and Related Programs
FY 1999 Allocation
($ in millions)

Program	**FY 1998 Actual**	**FY 1999 Request**	**FY 1999 Allocation**
NDF	15.000	15.000	15.000
Anti-terrorism Assistance	19.000	21.000	21.000
Demining	20.000	50.000	35.000
Science Centers [1]	[16.000]	21.000	[21.000]
Export Control Assistance	3.000	5.000	5.000
KEDO	40.000	35.000	35.000
IAEA	36.000	40.000	40.000
CTBT Preparatory Commission [2]	[6.537]	28.900	28.900
Unallocated			18.100
Total	**133.000**	**215.900**	**198.000**

[1] FY1998 and 1999 funding in Freedom Support Act
[2] FY1998 funding in ACDA and International Conferences and Contingencies Accounts.

• ***Migration and Refugee Assistance - MRA (Title II)***

• Administered by the Department of State, MRA enables the Secretary of State to provide assistance to the international Committee of the Red Cross, the International Organization for Migration, and the United Nations High Commissioner for Refugees. For FY1999, $640M was appropriated, a cut of $10M from the previous year.

• Not less than $70M of this account is earmarked for the support of refugees from the former Soviet Union and Eastern Europe and other refugees resettling in Israel.

• ***U.S. Emergency Refugee and Migration Assistance-ERMA (Title II)***

• The Department of State also administers the ERMA program. Funding from the ERMA account is drawn upon by the President to meet unexpected urgent refugee and migration needs when such assistance is determined to be important to the United States. For FY1999, this account is funded at $30M, down from the $50M provided in each of the past three years. These funds are treated as a "no-year" appropriation, as they remain available until expended.

• ***International Narcotics Control-INC (Title II)***

• Congress appropriated $261M for the FY1999 International Narcotics Control Program, a $46M increase above the FY1998 appropriation.

• Other FY1999 statutory provisions involving the INC program include the following:

(1) Authorization for the State Department, to use the authority of §608, FAA, to receive excess property from an agency of the U.S. Government "for the purpose of providing it to a foreign country" under the INC provisions (Chapter 8 of Part I) of the FAA;

(2) No funds may be used to establish or operate an International Law Enforcement Academy for the Western Hemisphere outside the United States. New funding of $5M shall be allocated to establish and operate the International Law Enforcement Academy for the Western Hemisphere at the deBremond Training Center in Roswell, New Mexico.

(3) Ten percent of the INC appropriation shall be held back from obligation, "until the Secretary of State submits a report to the Committees on Appropriations providing a financial plan for the funds appropriated for INC and for the related "Narcotics Interdiction" program discussed below.

• ***International Disaster Assistance-IDA (Title II)***

• For the necessary expenses associated with international disaster relief, rehabilitation, and reconstruction assistance, Congress appropriated $200M for FY1999 to remain until available.

• ***Peacekeeping Operations (PKO) (Voluntary), Title III, Military Assistance***

• For FY1999, the Administration requested $83M for voluntary peacekeeping operations assistance to friendly countries and international organizations. The level adopted by the Conference Committee and enacted for FY1999 was $76.5M. [See Table 6 which identifies PKO country and program funding for FY1998 and FY1999.]

• Voluntary PKO appropriations reflect U.S. interest in supporting, on a voluntary basis, various peacekeeping activities that are not United Nations mandated and/or are not funded by U.N. assessments. The Voluntary PKO account promotes conflict resolution, multilateral peace operations, sanctions enforcement, and similar efforts outside the context of assessed U.N. peacekeeping operations. Funding for Voluntary Peacekeeping Operations is distinct from the bulk of international peacekeeping assistance which is contributed by the U.S. and other countries in fulfillment of their United Nations financial assessments, and which in U.S. budget documentation is termed, "Contributions for International Peacekeeping Activities" (CIPA).

Table 6

Peacekeeping Operations (PKO)
FY 1998 and FY1999 Funding
(Dollars in Thousands)

Program	FY1998 PKO Allocations	FY1999 Budget Request	FY1999 PKO Allocations
Africa Regional	$7,130	$8,000	$4,000
African Crisis Response Initiative	10,000	15,000	15,000
Haiti	14,112	10,000	10,000
Israel-Lebanon Monitoring Group	812	1,000	1,000
Lockerbie Trial	4,946		
Multinational Force and Observers	15,500	16,000	15,500
Organization of African Unity		2,000	
Organization of American States		1,000	1,600
OSCE (Bosnia/Croatia) [1]	25,000	30,000	25,000
OSCE (Kosovo)			10,000
PKO Total	**$77,500**	**$83,000**	**$76,500**

[1] OSCE - Organization for Security and Cooperation in Europe

- ***Miscellaneous Appropriations and Related Provisions, Title V, General Provisions***

  - ***Limitations on Entertainment and Representational Allowances (§505)***

• Congress set ceilings on FY1999 FMFP and IMET allowances that are identical to those authorized for several years:

(1) FMFP: Not to exceed $2,000 is available for entertainment expenses, and not to exceed $50,000 shall be available for representational allowances,

(2) IMET: Not to exceed $50,000 shall be available for entertainment.

  - **Limitation on Assistance to Countries in Default (§ 512) [“Brooke Amendent”]**

• No assistance shall be provided to countries in default for a period in excess of one year in payments to the U.S. of principal or interest on a program for which funds are appropriated by this Act.

- This section and Section 620(q) of the FAA shall not apply to funds appropriated by this Act or during this fiscal year for Nicaragua, Brazil, Liberia, and for any narcotics-related Assistance for Colombis, Bolivia, and Peru authorized by the FAA or the AECA.

- ***Special Notification Requirements (§520)***

  - A special 15-day advance notification to the Committees on Appropriations is required prior to obligating or expending any of the funds appropriated in P.L. 105-277 for FY1999 for Colombia, Haiti, Honduras, Liberia, Pakistan, Serbia, Sudan, or the Democratic Republic of Congo.

  - Removed from the FY1998 list for which this notification requirement applied are Panama and Peru.

  - Added to the FY1998 list for FY1999 is **Honduras**.

- ***Landmines (§555)***

  - For FY1999, Congress extended an authority first provided in FY1997 to authorize the provision of U.S. "demining equipment available to the Agency for International Development and the Department of State to be used in support of the clearance of landmines and unexploded ordnance for humanitarian purposes, to be disposed of on a grant basis in foreign countries, subject to such terms and conditions as the President may prescribe." [See also discussion of demining funding in Miscellaneous Appropriations and Related Provisions section below.]

- ***Limitations on Assistance for Haiti (§561 and §565)***

  - §561 prohibits foreign assistance funds (other than for humanitarian, electoral, counter-narcotics, or law enforcement assistance) from being made available to **Haiti** until the President determines that the Government of Haiti:

(1) has completed privatization of (or placed under long-term private management or concession) three major public enterprises;

(2) has re-signed or is implementing the Bilateral Repatriation Agreement with the U.S. and in the preceding six months has cooperated in halting illegal emigration from Haiti;

(3) is conducting thorough investigations of extrajudicial and political killings which have occurred in Haiti and is making progress in bringing those responsible for the killings to trial;

(4) has taken action to remove from the Haitian National Police, national palace and residential guard, ministerial guard and any other public security entity of Haiti those individuals who are credibly alleged to have engaged in or conspired to conceal gross violations of international recognized human rights; and

(5) has ratified or is implementing the maritime counter-narcotics agreements signed in October 1997.

• In a related separate provision (§565), the Government of Haiti shall be eligible to purchase defense articles and services [through FMS] under the AECA, "for the civilian-led Haitian National Police and Coast Guard" subject to the regular reporting notification procedures of the Committees on Appropriations.

• ***Limitation on Assistance to Security Forces (§568)***

• This “Leahy Amendment” provision prohibits U.S. assistance funds from being provided to any unit of the security forces of a foreign country "if the Secretary of State has credible evidence that such unit has committed gross violations of human rights. . . ."

• When such assistance funds are withheld from any such unit under this provision, "The Secretary of State shall promptly inform the foreign government of the basis for such action and shall, to the maximum extent practicable, assist the foreign government in taking effective measures to bring the responsible members of the security forces to justice so funds to the unit may be resumed."

• The Conference Committee did not intend that "credible evidence" must be admissible in a court of law. The Committee also defined "taking effective measures" as a government carrying out a credible investigation and that the individuals involved face appropriate disciplinary action or impartial prosecution in accordance with local law.

• ***Additions Relating to the Stockpiling of Defense Articles for Foreign Countries (§571)***

• §514(b)(2), FAA, establishes the annual value of defense articles located abroad that may be set aside, reserved, or otherwise earmarked from U.S. military inventories for use as war reserve stocks for allies (WRSA) or for other countries (other than for NATO or Israel). The title to these stocks and their control remains with the U.S. government, and any future transfer of any of these items must be in accordance with the provisions of the security assistance legislation prevailing at the time of such transfer.

• Congress has amended §514(b)(2), FAA, to approve WRSA additions totaling $340M for FY1999. Of the total, such additions valued at not more than $320M are authorized to be transferred to stockpiles in the Republic of Korea, and not more than $20M for stockpiles in Thailand.

• ***Withholding Assistance to Countries Violating United Nations Sanctions Against Libya (§574)***

• This provision requires the President to withhold from obligation and expenditure not less than five percent of U.S. assistance funds (other than funds for humanitarian and development assistance) that have been allocated to any country if he determines and certifies to Congress that such country is violating any sanction imposed against Libya pursuant to U.N. Security Council Resolutions 731, 748, or 883. Funds may nevertheless be provided for such a country if the President determines that to do so is in the national security interest of the U.S.

- ***Aid to the Government of the Democratic Republic of Congo (§575)***

• None of the FY1999 funds appropriated or otherwise made available by P.L. 105-277 may be furnished to the central Government of the Democratic Republic of Congo until such time as the President reports to Congress that such Government:

• "is cooperating fully with investigators from the United Nations in accounting for human rights violations committed in the Democratic Republic of Congo or adjacent countries."

• is implementing a credible democratic transition program.

• These restrictions do not apply to assistance to promote democracy and the rule of law as part of a plan to implement a credible democratic transition program.

- ***Assistance for the Middle East (§576)***

• The legislation imposes a ceiling of $5,402,850,000 on the total amount of U.S. assistance that can be made available for Israel, Egypt, Jordan, Lebanon, the West Bank and Gaza, the Israel-Lebanon Monitoring Group, the Multinational Force and Observers, the Middle East Regional Democracy Fund, Middle East Regional Cooperation, and Middle East Multilateral Working Groups.

• This overall ceiling applies to assistance provided under all of the following programs: Economic Support Fund, Foreign Military Financing Program, International Military Education and Training, Peacekeeping Operations, for refugees resettling in Israel (under the heading "Migration and Refugee Assistance"), and for anti-terrorism assistance to Israel (under the heading Nonproliferation, Anti-Terrorism, Demining, and Related Programs).

• Further, this provision also prohibits the use of prior year funds in the accounts listed above that were allocated for other regions (such as Africa and Latin America) to fund any of the programs listed above for Middle East countries and activities.

• This ceiling limitation may be waived if the President determines and certifies to the Committees on Appropriations that it is important to the U.S. national security interest to exceed the imposed ceiling

- ***Report on All United States Military Training Provided to Foreign Military Personnel (§581)***

• Section 581 requires that the Departments of Defense and State provide to Congress no later than 31 January 1999 a report on all military training provided to foreign military personnel under the auspices of any program during fiscal years 1998 and 1999. The report must contain:

(1) the location of training;

(2) the duration of training;

(3) the number of foreign military personnel by country, including their units of operation;

(4) the cost of the training;

(5) the purpose and nature of the training; and

(6) an analysis of the manner and the extent to which the training meets or conflicts with the foreign policy objectives of the U.S., including the furtherance of democracy and civilian control of the military and promotion of human rights.

- ***Iraq Opposition (§590)***

• Not less than $8M shall be made available for assistance to Iraqi democratic opposition for such activities as organization, training, communication and dissemination of information, and developing and implementing agreements among opposition groups. Not less than $3M of this amount shall be made available to the Iraqi National Congress.

- ***Korean Peninsula Energy Development Organization (§592)***

• Section 614 of the FAA may not be used during FY 1999 for the Korean Peninsula Energy Development Organization to authorize the use of more than $35M of such funds made available for use under that Act or the AECA.

- ***AECA, Section 36 Notification Requirements (§594)***

• No less than fifteen days prior to export to any country ineligible for IMET or FMFP, Congress must be notified of the proposed sale of lethal defense articles and services in the value of $14M or less.

• ***India-Pakistan Relief Act of 1998*, Division A, Section 101(a), *Agriculture Appropriations Act for FY 1999*, Title IX, within the *Omnibus Consolidated and Emergency Supplemental Appropriations for FY 1999***

• On 11 and 13 May 1998, India conducted a total of five nuclear weapons tests at its Pokhran testing facility. This caused the President to report to Congress in accordance with Section 102, AECA (the “Glenn Amendment”), the sanctioning of nearly all forms of U.S. assistance and trade with India. On 28 and 30 May 1998, neighboring Pakistan also conducted a series of nuclear weapons tests. This, likewise, caused the President to promptly announce on 28 May 1998 the imposition of the “Glenn Amendment” sanctions on Pakistan. Neither country has signed the Comprehensive Nuclear Test Ban Treaty (NTBT).

• Section 901 provided the President the authority to waive for one year after enactment (through 20 Oct 99) any sanction contained in Sections 101 or 102, AECA; Section 620E (e), FAA; or Section 2 (b) (4), Export-Import Bank Act. However, this waiver authority is not to apply to any restrictions in:

- Section 102 (b) (B), AECA, pertaining to FMS sales and DCS export licensing,

- Section 102 (b) (C), AECA, pertaining to FMFP credits, or

- Section 102 (b) (G), AECA, pertaining to Section 6, EAA dual-use export licensing.

- On 12 November 1998, the President notified Congress of his 3 November 1998 decision to exercise the authorized waiver of the "Glenn Amendment" sanctions for both countries, for the one year. Specifically, activities by the Export-Import Bank, the Overseas Private Investment Corporation (OPIC), the Trade and Development Agency, and U.S. banking within India and Pakistan are to be resumed. The International Military Education and Training (IMET) program is also to be resumed.

- ***Foreign Affairs Reform and Restructuring Act of 1998, Division G,* of the *Omnibus Consolidated and Emergency Supplemental Appropriations for FY 1999***

- Section 1211 abolishes the U.S. Arms Control and Disarmament Agency (ACDA) no later than 1 April 1999. The functions of ACDA will be transferred to the Department of State, for all practical purposes, specifically to the Under Secretary of State for Arms Control and International Security (T).

- Added new functions for the Under Secretary are generally described in Section 1213:

- Assist the Secretary and Deputy Secretary in matters related to international security policy, arms control, and nonproliferation.

- Subject to the direction of the President, attend and participate in the meetings of the National Security Council (NSC) in his role as Senior Advisor to the President and the Secretary of State on Arms Control and Nonproliferation Matters.

- Section 1225 (a) amends the AECA wherever required to reflect the disestablishment of ACDA.

- Section 36 (b)(1)(D) - "36 (b)" FMS notification to Congress. Strikes ADCA from providing the required nonproliferation/arms control assessment and inserting "the Secretary of State in consultation with the Secretary of Defense and the Director of Central Intelligence" to provide the assessment.

- Section 38 (a)(2) - Issuing DCS export licenses. Strikes ACDA being consulted for a nonproliferation/arms control assessment when deciding to issue an export license. This does not negate an assessment process taking place within State Department, and inserts "take into account" the same required issues relating to nonproliferation/arms control before licensing.

- Section 42 (a)(1)(C) - Allowing OCONUS coproduction or licensed production of U.S.-origin defense articles. Strikes ACDA being consulted for a nonproliferation/arms control assessment when deciding to allow OCONUS production. This negates the formal assessment requirement but does not negate the various required issues relating to nonproliferation/arms control being "taken into consideration" before allowing OCONUS production.

- Sections 71 (a), 71 (b)(1), 71 (b)(2), 71 (c), and 73 (d) - Issuing DCS export licenses for Missile Technology Control Regime (MTCR) items on the U.S. Munitions List (USML). Administratively removes ACDA from this licensing process.

- Similarly, Section 1225 (b) amends the FAA where required to reflect the disestablishment of ACDA.

    - Section 511 - Providing military assistance authorized by the FAA. Strikes ACDA being consulted for a nonproliferation/arms control assessment when deciding to provide FAA-authorized military assistance. This does not negate an assessment process taking place within State Department, and inserts "take into account" the same required issues relating to nonproliferation/arms control before providing the assistance.

- Likewise, the *U.S. Peace Institute Act, the Atomic Energy Act of 1954, the Nuclear Non-Proliferation Act of 1978, the State Department Basic Authorities Act of 1956,* and *the Foreign Relations Authorization of 1972* are amended to reflect the disestablishment of ACDA. In many instances, "the Secretary of State" is substituted where necessary.

- Section 1311 abolishes the U.S. Information Agency (USIA) no later than 1 October 1999. The functions of USIA will be transferred to the Department of State, for all practical purposes, specifically to the Under Secretary of State for Public Diplomacy. Several amendments are made to an assortment of laws implementing the disestablishment.

- The U.S. International Development Cooperation Agency (IDCA) is immediately abolished by Section 1411, except for the U.S. Agency for International Development (USAID) or the Overseas Private Investment Corporation (OPIC). Any funding made available to IDCA after 1 October 1997 is allocated to the Secretary of State. Several amendments are made to an assortment of laws to reflect the disestablishment.

- USAID is reorganized by Section 1511 to take place not later than 1 April 1999. The Director of USAID reports to and is under the direct authority and foreign policy guidance of the Secretary of State.

- According to Section 1523, under the direction of the President, the Secretary of State shall coordinate all U.S. assistance, including:

    (1) Part I, Chapter 1 of the FAA, relating to development assistance

    (2) Part II, Chapter 4 of the FAA, relating to the economic support fund (ESF)

    (3) Part I, Chapter 10 of the FAA, relating to the development fund for Africa

    (4) Part I, Chapter 11 of the FAA, relating to assistance for the independent states of the former Soviet Union

    (5) The Support for East European Democracy Act [22 USC 5401 et seq].

    - In addition to other already legislated authorities, the Secretary of State's coordination activities are to include:

        (1) Approving an overall assistance and economic cooperation strategy

(2) Ensuring program and policy coordination among agencies of the U.S. Government in carrying out the policies set forth in the FAA, AECA, and other relevant assistance Acts

(3) Pursing coordination with other countries and international organizations

(4) Resolving policy, program, and funding disputes among U.S. Government agencies.

- However, coordination of activities relating to the promotion of exports of U.S. goods and services are to continue to be primarily the responsibility of the Secretary of Commerce. Likewise, the coordination of activities relating to U.S. participation in international financial institutions and relating to organization of multilateral efforts aimed at currency stabilization, currency convertibility, debt reduction, and comprehensive economic reform programs are to continue to be primarily the responsibility of the Secretary of the Treasury.

- ***Foreign Relations Authorizations Act, Fiscal Years 1998 and 1999, Subdivision B, within Division G, Foreign Affairs Reform and Restructuring Act of 1998***

  - Section 2101 (4), Security and Maintenance of United States Missions, authorizes the appropriation of $404,000,000 for FY1998 and $403,561,000 for FY1999.

  - Similarly, Section 2101 (9) (A) , Protection of Foreign Missions and Officials, appropriates $7,900,000 for FY1998 and $8,100,000 for FY1999.

  - Section 2207 - amends Title I of the *State Department Basic Authorities Act of 1956* with a new Section 56, Accounting of Collections in Budget Presentation Document, as follows:

> "The Secretary shall include in the annual Congressional Presentation Document and the Budget in Brief a detailed accounting of the total collections received by the Department of State from all sources, including fee collections. Reporting on total collections shall also cover collections from the preceding fiscal year and the projected expenditures from all collections accounts."

  - Section 2216 - Human Rights Reports. Amends Section 116 (d), FAA, requiring the annual human rights report by 25 February (vice 31 January). This section also inserts a new reporting requirement as "(3) the status of child labor practices in each country, including-(A) whether such country has adopted policies to protect children from exploitation in the workplace, including a prohibition of forced and bonded labor and polices regarding acceptable working conditions; and (B) the extent to which each country enforces such policies, including the adequacy of the resources and oversight dedicated to such policies." Paragraphs (3), (4), (5), and (6) are redesignated as paragraphs (4), (5), (6), and (7), respectively.

  - Section 2812 - Support for democratic opposition in Iraq.

    - $3,000,000 is authorized to be appropriated for FY1998 for assistance to an international commission to establish an international record for the criminal culpability of Saddam Hussein and other Iraqi officials and for an international criminal tribunal.

• $15,000,000 is authorized to be appropriated for FY1998 to provide support for democratic opposition forces in Iraq. Of which, $10,000,000 is to be used for assistance to the democratic opposition, including leadership organization, training political cadre, maintaining offices, disseminating information, and developing and implementing agreements among opposition elements. Of which, $5,000,000 is to be used for grant aid support to RFE/RL, Incorporated, to designated as "Radio Free Iraq," for surrogate radio broadcasting in Arabic to the Iraqi people.

• $20,000,000 is authorized to be appropriated for FY1998 for the relief, rehabilitation, and reconstruction of people living in Iraq and communities in Iraq not under control of the Saddam Hussein regime.

• *European Security Act of 1998*, Title XXVII, within Subdivision B, *Foreign Relations Authorization Act, Fiscal Years 1998 and 1999*, within Division *G, Foreign Affairs Reform and Restructuring Act of 1998*

• Section 2702 - Statement of Policy. Congress urges the President to outline a clear and complete strategic rationale for the enlargement of NATO; and declares, among other things, that:

• Poland , Hungary, and Czech Republic should not be the last emerging democracies in Central and Eastern Europe invited to join NATO.

• The U.S. should ensure that NATO continues a process whereby all other emerging democracies in Central and Eastern Europe that wish to join NATO will be considered for membership in NATO as soon as they meet the criteria for such membership.

• Section 2703 - In authorities relating to NATO enlargement, Romania, Estonia, Latvia, Lithuania, and Bulgaria are each designated by Section 2703 as eligible to receive assistance under the program established under Section 203 (a), of *The NATO Participation Act (NPA)* of *1994*, P.L. 103-447, 2 November 1994.

• Section 2703 (d) - Amends Section 105, P.L. 104-164, 21 July 1996, authorizing DoD funds to be used during FY1999 for packing, crating, handling, and transportation (PCH&T) of grant EDA transferred in accordance with Section 516, FAA, to countries eligible to participate in Partnership for Peace (PfP) and eligible for assistance under the *Support for East European Democracy (SEED) Act of 1989*, P.L. 101-179, 28 November 1989.

• Section 519 of the *Foreign Operations Appropriations Act for FY1999* likewise amends P.L.104-164 but through FY2000 for PCH&T of EDA.

• The *Congressional Presentation for Foreign Operation, FY99*, indicates the following countries are *SEED ACT* assistance eligible countries for FY99: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Lithuania, Macedonia, Poland, Romania, Serbia, and Slovakia. Hungary and Latvia “graduated” from this assistance after FY98, with Estonia after FY96 and Czech Republic and Slovenia after FY97.

• *Strom Thurmond National Defense Authorization Act for Fiscal Year 1999*, P.L. 105-261, 17 October 1998

• Section 109 authorizes the appropriation of $1,295,000 for carrying out the Defense Export Loan Guarantee (DELG) Program. The DELG program was initially authorized by the *FY96 Defense Authorization Act*, Sec. 1321, P.L. 104-106, which directed the Secretary of Defense to establish a program to issue up to a total of $15B in loan guarantees for defense exports to governments of approved countries in support of FMS and DCS sales or long-term leases. The eligible countries include members of NATO, major non-NATO countries (designated prior to 31 March 1995), non-communist members of the Asia Pacific Economic Cooperation (APEC) Forum, and emerging democracies of Central Europe. This under-subscribed program was initially set up with the goal of not using appropriated DoD funds with the participant countries paying any risk exposure fees as well as program administrative fees.

• Section 1521 amends 10 USC 134(b) concerning the functions of the Under Secretary of Defense for Policy (USDP) to having the responsibility for supervising and directing DoD activities relating to export controls. Specifically, it establishes, within USDP, a Deputy Under Secretary of Defense for Technology Security Policy [DUSD (TSP)]. The individual within this position also serves as the Director of the Defense Technology Security Administration (DTSA) or any successor organization with similar responsibilities. The more visible duties of DTSA were to coordinate within DoD any recommendations for the commercial licensing for the export of defense articles and services by the Department of State or dual-use articles and services by the Department of Commerce. This office is to implemented not later than sixty days after date of legislation enactment (or about 16 December 1998). The legislated duties for the DUSD (TSP) include:

(a) assisting the USDP in supervising and directing the activities of the DoD relating to export controls; and

(b) assisting the USDP in developing policies and positions regarding the appropriate export control policies and procedures that are necessary to protect the national security interests of the United States.

• The Defense Reform Initiative (DRI) of November 1997 recommended the establishment of a new agency, the Defense Threat Reduction Agency (DTRA), to strengthen DoD's ability to deal the proliferation of weapons of mass destruction. This resulted in the 1 October 1998 creation of DTRA within the Under Secretary of Defense for Acquisition and Technology [USD (A&T)] generally consolidating the On-Site Inspection Agency, the Special Weapons Agency, and DTSA. The former DTSA became the Defense Technology Security Directorate within DTRA.

• Section 1234 amended 10 USC 2581 to reasonably ensure that any excess UH-1 Huey and AH-1 Cobra helicopters transferred on a grant or sales basis to a country for the purpose of flight operations receive depot level equivalent maintenance and repair that U.S. military helicopters would receive before the transfer takes place. All reasonable effort shall be made to ensure that this maintenance or repair takes place in the U.S. and at no cost to the DoD. These requirements do not apply for salvage helicopters being transferred to a country solely as a source for spare parts.

• Section 1236 repeals Section 580 of the *Foreign Operations Appropriations Act for FY 1996*. The former section stated that the U.S. will not use anti-personnel landmines except along internationally recognized national borders or in demilitarized zones within a perimeter marked area that is monitored by military personnel and protected by adequate means to ensure the exclusion of civilians for a one year period beginning 12 February 1999.

- Section 1513 directs that all satellites and related items that are on the Commerce Control List (CCL) of dual-use items in the Export Administration Regulations (EAR) (15 CFR part 730 et seq.) be immediately transferred to the United States Munitions List (USML) in the International Traffic in Arms Regulations (ITAR) (22 CFR 120-130) and controlled under the authority of Section 38, AECA.

- Section 1514 requires the President to take such actions necessary to implement the following requirements for improving national security in the export licensing of satellites and related items. All export licenses shall require a technology transfer control plan (TTCP) approved by the Secretary of Defense and an encryption technology transfer control plan approved by the Director of the National Security Agency. The Secretary of Defense shall monitor all aspects of a licensed satellite launch to ensure there is no unauthorized transfer of technology, including technical assistance and technical data. DoD is to be reimbursed by the person or entity receiving such service for the cost of the monitoring. The extent of the required monitoring is specifically defined within this Section. Any investigations of crashes with U.S.-origin satellites are subject to Section 38, AECA, export license control, requiring DoD approved TTCPs and DoD monitoring of all activities. DoD will provide Congress an annual report of monitoring all launches of U.S.-origin satellites. Additionally, Congress will be notified of any export licenses issued for satellites or related items to be launched in a foreign country.

- Section 1514 requirements do not apply for the export of satellites or related items to NATO countries or major non-NATO allies.

- Section 1516 defines "related items" to mean "satellite fuel, ground support equipment, test equipment, payload adapter or interface hardware, replacement parts, and non-embedded solid propellant orbit transfer engines described in the report submitted to Congress by the Department of State on February 6, 1998, pursuant to Section 38(f), AECA."

- Section 1235 offered an extensive list of naval vessels to be transferred to certain foreign countries:

  - Pursuant to the authority of §21, AECA ("Sales From Stock"), the Secretary of the Navy is authorized to transfer by sale, 34 U.S. naval vessels to eight specified countries, plus Taiwan, as follows:

    - The Government of Brazil: the NEWPORT class tank landing ships CAYUGA (LST-1186) and PEORIA (LST-1183).

    - The Government of Chile: the NEWPORT class tank landing ship SAN BERNARDINO (LST-1189) and the auxiliary repair dry dock WATERFORD (ARD-5).

    - The Government of Greece: the OAK RIDGE class medium dry dock ALAMAGORDO (ARDM-2) and the KNOX class frigates VREELAND (FF-1068) and TRIPPE (FF-1075).

    - The Government of Mexico: the auxiliary repair dry dock SAN ONOFRE (ARD-30) and the KNOX class frigate PHARRIS (FF-1094).

• The Government of the Philippines: the STALWART class ocean surveillance ship TRIUMPH (T-AGOS-4).

• The Government of Spain: the NEWPORT class tank landing ships HARLAN COUNTY (LST-1196) and BARNSTABLE COUNTY (LST-1197).

• The Taipei Economic and Cultural Representative Office in the United States [the Taiwan instrumentality that is designated pursuant to §10(a) of the Taiwan Relations Act]: the KNOX class frigates PEARY (FF-1073), JOSEPH HEWES (FF-1078), COOK (FF-1083), BREWTON (FF-1086), KIRK (11-1087), BARBEY (FF-1088); the NEWPORT class tank landing ships MANITOWOC (LST-1180) and SUMTER (LST-1181); the floating dry dock COMPETENT (AFDM-6); and the ANCHORAGE class dock landing ship PENSACOLA (LSD-38).

• The Government of Turkey: the OLIVER HAZARD PERRY class guided missile frigates MAHLON S. TISDALE (FFG-27), REID (FFG-30), and DUNCAN (FFG-10); and the KNOX class frigates REASONER (FF-1063), FANNING (FF-1076), BOWEN (FF-1079), MCCANDLESS (FF-1084), DONALD BEARY (FF-1085), AINSWORTH (FF-1090), THOMAS C. HART (FF-1092), and CAPODANNO (FF-1093).

• The Government of Venezuela: the medium auxiliary floating dry dock bearing hull number AFDM-2.

• The Secretary of the Navy is authorized to transfer on a grant basis under Section 516 of the FAA, nine vessels to four countries:

• The Government of Argentina: the NEWPORT class tank landing ship NEWPORT (LST-1179).

• The Government of Greece: the KNOX class frigate HEPBURN (FF-1055); and the ADAMS class guided missile destroyers STRAUSS (DDG-16), SEMMES (DDG-18) and WADDELL (DDG-24).

• The Government of Portugal: the STALWART class ocean surveillance ship ASSURANCE (T-AGOS-5).

• The Government of Turkey: the KNOX class frigates PAUL (FF-1080), MILLER (FF-1091), and W.S. SIMMS (FF-1095).

• The Secretary of the Navy is authorized to transfer the following vessels on a combined lease-sale basis under Sections 61 and 21 of the AECA, and in accordance with Subsection (d):

• The Government of Brazil: the CIMARRON class oiler MERRIMACK (AO-179).

• The Government of Greece: the KIDD class guided missile destroyers KIDD (DDG-993), CALLAGHAN (DDG-994), SCOTT (DDG-995), and CHANDLER (DDG-996).

- A transfer of a vessel on a combined lease-sale basis must meet the following requirements:

  - The Secretary may suspend lease payments if the country entering into the lease for the vessel simultaneously enters into an FMS agreement for the transfer of title to the vessel.

  - The Secretary may not deliver the title to the purchasing country until the entire purchase price under such an FMS agreement is paid in full, at which time the lease will be terminated.

  - If the purchasing country fails to make the full payment of the purchase price in accordance with the sales agreement by the date required, the sales agreement will be terminated immediately, the suspension of the lease payments will be vacated, and the U.S. will be entitled to retain all the funds received on or before the date of the termination of the sales agreement, up to the amount of the lease payments due and payable under the lease and all other costs required by the lease to be paid to that date. In this case, the U.S. shall not pay interest on any amount paid by the recipient and not retained by the U.S. under the lease.

  - Any expenses incurred by the U.S. in connection with the transfer of any of these vessels shall be charged to the recipient.

  - As a further condition of any such transfer, the Secretary of the Navy shall require, to the maximum extent practicable, that any repairs or refurbishments that are needed prior to the transfer, be performed at a shipyard located in the United States, including a United States Navy shipyard.

  - Transfer authority is permitted for two years, beginning on the date of the enactment of this Act.

- ***Department of Defense Appropriations Act, 1999*, P.L. 105-262, 17 October 1998**

  - Title I, Former Soviet Union Threat Reduction - appropriates $440,400,000, to remain available through 30 September 2001, for assistance under the DoD Cooperative Threat Reduction Program (CTRP) originally authorized by the *DoD Authorization Act for FY1992* generally used for the control of weapons of mass destruction (WMD) including its technology and associated scientists and engineers, particularly within the Former Soviet Union (FSU) states of Russia, Belarus, Ukraine, and Kazakstan. Also referred to as "Nunn-Lugar funding" which has been provided at an annual rate of approximately $400 million.

  - Section 1302, P.L. 105-261, 17 October 1998, the *Strom Thurmond National Defense Authorization Act for FY1999*, provides the following allocation ceilings, by program, with certain required limitations and reports, for this year's appropriated CTRP (or "Nunn-Lugar") funding.

    - Strategic offensive arms elimination in Russia - $142,400,000
    - Strategic nuclear arms elimination in the Ukraine - $47,500,000
    - Activities to support warhead dismantlement processing in Russia - $9,400,000
    - Activities associated with chemical weapons destruction in Russia - $88,400,000

- Weapons transportation security in Russia - $10,300,000
- Planning, design, and construction of a storage facility for Russian fissile material - $60,900,000
- Weapons storage security in Russia - $41,700,000
- Development of a cooperative program with the Government of Russia to eliminate the production of weapons grade plutonium at Russian reactors - $29,800,000
- Biological weapons proliferation prevention activities in Russia - $2,000,000
- Activities designated as Other Assessments/Administrative Support - $8,000,000.
- The funding shall be available for obligation for three fiscal years.

• Section 1303, P.L. 105-261, further states that no FY1999, or prior years', CTRP funding will be used for the conduct of peacekeeping exercises or other related activities with Russia,provision of housing, provision of assistance to promote environmental restoration, or provision of assistance to promote job retraining.

• Section 8086 - authorizes the Secretary of Defense to waive reimbursement of the cost of conferences, seminars, courses of instruction, or similar activities of the Asia-Pacific Center for Security Studies for military officers and civilian officials of other countries if the Secretary determines that their attendance, without reimbursement, is in the U.S. national security interest. The waived reimbursement cost is to be paid from the appropriations for the Asia-Pacific Center.

• Section 8097 - none of the funds in this year's Act may be used to approve or license the sale of the F-22 Raptor advanced tactical fighter to any government. This is a renewal of same prohibition from the *FY1998 Defense Appropriations Act*, Section 8118.

• Section 8110 - reiterates the authority for the transfer of several ex-U.S. Navy ships to other countries contained in this year's *Defense Authorization Act*, Section 1235.

• Section 8130 - prohibits the use of funding from this Act to be used to support any training involving a unit of the security forces of a foreign country if the Secretary of State has received credible information from the Department of State that a member of such unit has committed a gross violation of human rights, unless all necessary corrective steps have been taken. After consultation with the Secretary of State, the Secretary of Defense may waive this prohibition if he determines that the waiver is required by extraordinary circumstances. If such a waiver is granted, the Secretary of Defense must submit a report within fifteen days to the congressional defense committees describing the circumstances for the waiver, the purpose and duration of the training to be provided, U.S. forces and foreign security forces involved in the training, and the information relating to the human rights violations requiring the waiver. This is the first time that the previously described human rights principles of the “Leahy Amendment”, Section 568 of the *Foreign Operations Approrpiations Act* (for State Department 150 account funding), is being also applicable to international training funded by Defense Department 050 account funding.

- ***Iraq Liberation Act of 1998, P.L. 105-338, 31 October 1998***

• Section 4 (a) (2) - authorizes the President to drawdown defense articles, services, and training from DoD of an aggregate value not to exceed $97,000,000 to be provided to Iraqi democratic opposition organizations. The drawdown is to be done without reimbursement to the DoD. However, funds are authorized to be appropriated during FY1998 and FY1999 as may necessary to reimburse the drawdown. Due to the lateness of the enactment of this legislation, reimbursement appropriations never took place during FY1998 and have yet to take place during FY1999. Also of note, is the period for this drawdown authority to take place is not specified; therefore, the time for implementation appears to be indefinite.

• Section 5 - within ninety days of enactment (about 30 January 1999), the President is to designate one or more organizations to receive this drawdown and notify Congress fifteen days prior to the designation.

• Subsequently, on 21 January 1999, the following seven groups were initially designated to receive the drawdown assistance:

- Supreme Council for Islamic Revolution in Iraq (SCIRI)
- Iraqi National Congress
- Iraqi National Accord
- Islamic Movement of Iraqi Kurdistan
- Movement for Constitutional Monarchy
- Kurdistan Democratic Party
- Patriotic Union of Kurdistan.

- **Conclusion**

This year's security assistance legislation brought little change to the levels of the various programs, and there were few new restrictions placed either on countries or on programs. The most significant policy change was the decision by the Congress to phase out ESF for Israel over the next decade and to reduce Egypt's share by fifty percent over the same period. This represents a major reshaping of this program since these two countries have long been the principal recipients of this type of aid. The foreign policy bureaucracy was affected by the much-discussed abolition of the Arms Control and Disarmament Agency and the U.S. Information Agency and the transfer of their functions to the State Department. Although this removes ACDA from a designated role in the security assistance process, the functions performed by ACDA will still be conducted throughout the State Department.

With technology transfer in the political headlines, Congress instituted a few changes to strengthen the controls over exports with the possibility of increasing the threat to the U.S. First, within the Defense Department's Under Secretary for Policy, legislation created a new Deputy for Technology Security Policy, who serves as the Director of the Defense Technology Security

Administration, which itself was transformed into a directorate within the new established Defense Threat Reduction Agency. The latter organization was established in the Under Secretary of Defense for Acquisition and Technology and generally consolidated the On-Site Inspection Agency, the Special Weapons Agency, and DTSA.

In another step aimed at creating tighter control over high technology exports, Congress mandated that all satellites and related items on the Commerce Control List of dual-use items be immediately transferred to the U.S. Munitions List in the International Traffic in Arms Regulations.

With the funding levels in FY1999 remaining the same as in FY1998, there is little change in the overall security assistance program, in spite of the organizational changes and the increased concern over the technology transfer.

Acknowledgments

As in past years, the efforts and valued support of others aided in the preparation of this report. The legislative summaries produced by Peter Ipsen in the Defense Security Cooperation Agency, and his review of the manuscript, along with a review by his DSCA colleague, Neil Hedlund, were particularly helpful. Similarly, the authors appreciate the ongoing support of the DISAM faculty, especially the sound knowledge and keen insight of Dr. Larry Mortsolf.

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One on One

With

Jacques Gansler, U.S. Undersecretary for Acquisition and Technology

[The following is a reprint of an interview with Mr. Jacques Gansler. The interview was published in the 15 March 1999 issue of *Defense News* (p. 46). This article is reprinted with the permission of *Defense News*.]

He is, by his own admission, a certified member of the military-industrial complex. Jacques Gansler has shuttled between public service and the private sector for more than 25 years.

Before his latest return to the Pentagon, Gansler worked at TASC Inc., an applied information technology company in Arlington, VA. He previously served the Defense Department as Deputy Assistant Secretary of Defense for Materiel Acquisition, and Assistant Director of Defense Research and Engineering.

Today, as Undersecretary of Defense for Acquisition and Technology, he is a major player in deciding which programs live and die, and how the Defense Department buys weapons and supplies.

Gansler, known throughout academe and the defense industry for his many articles and several books on how the Pentagon buys weapons, has tackled a wide range of issues since taking the helm in November 1997. He has warned of a procurement death spiral, pushed price-based acquisition, worried about the issue of globalization, and worked to secure more money for weapon purchases and to upgrade aging systems.

In an extended discussion with Defense News staff Jan. 19, Gansler tackled globalization, criteria for new defense mergers and other issues.

Q. What are the priorities you use to assess whether a merger is in the best interests of the United States?

A. [Former Defense Secretary] Bill Perry had this famous [so-called] last supper, during which he said there were two criteria that he would use to judge [any defense industry merger].

One was that we would gain efficiency as a result of the merger if that could be demonstrated.

The second one was that we maintain competition at all critical areas. As consolidations kept taking place, it became increasingly more difficult to look at the competition question and, ultimately, that was what led us to stop the Northrop-Lockheed merger. [The Defense Department and the Justice Department last year halted the merger of Northrop Grumman Corp., Los Angeles, with Lockheed Martin Corp., Bethesda, Md.]

Q. Are these also applicable to possible trans-Atlantic mergers?

A When we introduce the questions of foreign acquisition, we still want to use those same two criteria. And we want to add one more criterion, which is how to maintain security in the presence of globalization.

Q. So how does that translate into policy on mergers and technology transfers?

A. I think it is probably wrong for us to totally fight globalization as industry is globalizing. Increasingly, there are defense technologies that we would like to take advantage of on a global scale. So, from the viewpoint of economic considerations -- and from the viewpoint of geopolitical considerations, [i.e.] the fact that we most likely will want interoperability with our allies -- it makes sense for us to increasingly consider globalization as part of our mergers and acquisition perspective.

Q. But how do you judge the impact on U.S. national security?

A. This issue of making sure we have security control over the technology, over the products, over third-country sales, over leakage, drives us to consider the company and the countries [involved in any potential merger], their history and their background.

We also need to consider whether or not [these countries] have agreements that honor some of our legal and ethical behavior; whether or not they share intelligence freely with us; and then, finally, what kinds of controls do they have over their technology.

Q. Are mergers more or less likely under these guidelines?

A. With those criteria as the method of approach to assess an acquisition, we think it makes sense for us to be more open in our considerations of foreign acquisitions. At some point, I suppose reciprocity also comes into this. In other words, are [the countries involved in a potential trans-Atlantic merger] willing to allow U.S. acquisitions of their companies, and are they willing to buy from U.S. companies in the same way?

Q. John Hamre, the deputy defense secretary, repeatedly has raised concerns about the security of military computers. Where will that figure in these guidelines?

A. It's a new world. Security, for example, has to be viewed a very different way. The big problem is cybersecurity and how do we control the networking leakage, not just who visits the plant and who takes home the technology and what drawings you walk out of the country with.

We also have the growing linkages within companies [via computer]. Were we to approve of a linkage between country A and a U.S. firm, it may well be that country A is already linked to countries B, C and D. While B and C may be trustworthy allies, D may not be.

Q. How does that translate into policy?

A. What we don't want to do is send out a signal that we are not at all interested; that we will build big walls and in no way will we allow [mergers between U.S. and] foreign companies. In fact, the approval of the GEC-Tracor purchase indicates that we are going [toward encouraging such ties].

[The British firm General Electric Co. (GEC) plc, London, bought the Austin, Texas-based defense firm TRACOR last year.]

But GEC is maintaining extremely tight controls with these special security arrangements that are part of the normal requirement.

Q. Do you see the day when we rely on a company outside the United States for weapon platforms?

A. The first and primary question isn't the ownership [of the company providing weaponry]; it's the controls [on technology transfer]. I think it's also a consideration of where they are located....

At some point, I think there will be systems we buy from the Europeans and they will buy some from us.

Q. So, you can imagine a trans-Atlantic company as a prime U.S. contractor?

A. One could envision a globalized company certainly, a globalized company that does business here in the U.S. on major weapon systems, and does some parts of it offshore. If you would open up a weapon system today, you would find significant elements, many of them critical, [from off-shore]. A semiconductor from Japan or glass from Germany are already coming significantly from offshore.

So we already have a semi-globalized industry. We are used to thinking of the prime contractor as the issue. You know, who does the final assembly?

And in some of our weapon systems, a helicopter for example... the majority of the systems come from offshore and they are assembled in the U.S. in order to satisfy the Buy America Act.

Q. What effect will the security issue have on this?

A. I don't know if we are ready to buy all of our weapon systems from offshore. I don't know if that will happen. And we are so far ahead of [the Europeans] in technology and in quantity, our market is so much larger than theirs, that we will be more than competitive in the future.

But I do see us buying some components in niche markets from offshore.

Q. Given that trend, what message do you think you are sending to the Europeans with your action on the Medium Extended Air Defense System? Will you make at least a political commitment to it?

A. I think the answer is yes. The MEADS requirements, namely for mobility, 360-degree coverage and for advanced targets, are shared by Europe and us.

Our only problem with it, as we rank our priorities for defense we have a long list. MEADS is on the list. But I suspect that if I go up and ask a congressman to list those requirements, they would probably start with things like National Missile Defense, the Navy Upper Tier missile system, the Upper Tier Army system and maybe the Airborne Laser system.

Q. Is MEADS at the bottom of the list?

A. It's on that list. No, I don't necessarily feel it's on the bottom, either my list or others' lists, but each person has their own list.

But, MEADS is probably not at the top of any of those lists, except for the fact that it is at the top of some of our allies' lists, or at least close to the top.

The fact that there is a recognized need, and one for which we don't have full capability, pushes us to try to find affordable solutions to satisfy [both the U.S. and European requirements].

Offsets In Defense Trade

Prepared by The U.S. Department of Commerce

[The following material is extracted from an August 1998 U.S. Department of Commerce study entitled, *Offsets in Defense Trade; A Study Conducted Under Section 309 of the Defense Production Act of 1950, as amended*. The report was produced by the Strategic Analysis Division in the Office of Strategic Industries and Economic Security of the Bureau of Export Administration (BXA). This is the third in a series of congressionally required annual reports on defense related offset agreements. (Excerpts from the first such report was published in the Fall of 1996 issue of *The DISAM Journal*, pp.30-56. The second such report was published in the Winter 1997-1998 issue of *The DISAM Journal*, pp. 65-92). A copy of the complete report is available through BXA. Phone: 202-482-4060; Fax: 202-482-5650; E-mail: <bbotwin @bxa.doc.gov>.

OVERVIEW

Legislation

In 1984, Congress enacted amendments to the Defense Production Act of 1950, as amended, which included the addition of Section 309. Section 309 required the President to submit an annual report on the impact of offsets on U.S. defense preparedness, industrial competitiveness, employment, and trade to the Committee on Banking, Finance, and Urban Affairs of the House of Representatives and, the Committee on Banking, Housing, and Urban Affairs of the Senate.

When Section 309 was first enacted, the Office of Management and Budget (OMB) was appointed as the interagency coordinator in the preparation of the annual offset report for the Congress. These reports were to be prepared in consultation with the Departments of Commerce, Defense, and Labor, and the Office of the United States Trade Representative. This interagency reporting requirement continued, with minor adjustments, until 1992, when Section 309 underwent major modifications. The interagency coordination role was then transferred from OMB to the Secretary of Commerce.

The Secretary was given authority to develop and administer regulations to collect from industry the offset data required for the report. This responsibility was later delegated to the Department's Bureau of Export Administration (BXA). A change was also made in Section 309, adding a sales reporting threshold previously cited in the National Defense Authorization Act for Fiscal Year 1991. The offset agreement threshold was reduced from $50 million to $5 million for U.S. firms entering into foreign defense sales contracts subject to offset agreements. On a per transaction level, firms report all offset transactions for which they receive offset credits of $250,000 or more. [A copy of Section 309 can be found in Appendix A in BXA`s 1998 *Offsets in Defense Trade* report. An itemized list of information that is collected annually from industry is located in Appendix B in BXA`s 1998 *Offsets in Defense Trade* report]

PERSPECTIVES ON OFFSETS

Who Really Pays for Offsets?

Do offsets increase the price of the weapon system? The answer is almost always, *yes*; offsets increase the price of the weapon system by imposing added costs.

The cost of offsets is difficult to measure and varies greatly in different situations, but it can be substantial. For example, if a foreign subcontractor is substituted for an established U.S. subcontractor, the cost of the first 100 units the foreign subcontractor produces will (in theory) be higher than the last 100 units produced by the U.S. firm. The actual cost difference, including the cost of qualification, is dependent on the level of prior experience and know-how existing within the foreign firm and, ultimately, the volume of work to be performed. The foreign subcontractor will probably never reach the volume levels of the U.S. counterpart, and therefore, will have higher unit costs for the lower volume of units produced.

The foreign government may subsidize the foreign subcontractor by various methods, which lowers the cost to the U.S. prime contractor and the weapon system. Nonetheless, the subsidy is still a cost incurred by the foreign government and ultimately the foreign population, and therefore is just as real an offset cost had it instead been passed through by the U.S. prime.

The unit production cost curve starts at a high level with production of the first unit and then slopes downward at a decreasing rate for each additional unit until, at some point, it will start upward again. This is known as the marginal cost curve (i.e., cost of the last unit produced). The average cost of all units also falls as progressively cheaper units are produced. However, at some point, the marginal cost and average cost curves intersect, and this is the lowest average unit cost achievable using current technology, factory layout, and labor inputs. The least cost plant configuration can vary greatly by engineering design. For example, an auto assembly plant's lowest average unit cost may be engineered into the plant at about 200,000-250,000 vehicles per year

Military weapon-system production lines, such as aircraft, do not use mass production techniques, but instead design production to minimize cost related to maximum anticipated yearly deliveries. Also, the relatively small quantities ordered by the military raise the cost per unit, making overall cost more sensitive to changes in unit volume. Thus, the larger the order quantities the more dramatically the per unit cost falls.

The U.S. producer of the weapon system may subcontract additional work to the foreign subcontractor for the same weapon system on sales to other countries or sales or upgrades to the U.S. Defense Department. The greater volume will reduce the foreign contractor's costs. Also, the aftermarket, which can last 20-30 years into the future, can provide additional opportunities for the foreign subcontractor, certainly for those systems in his own country, but including bids for replacements in the United States. In addition, if the foreign subcontractor's performance is out-standing, the American prime may establish a longer-term relationship and use the firm on other projects as a primary source.

The United States also pays for offsets. Again, the volume of production is critical to cost structure across all part and component suppliers and production lines. The fact that the United States orders the most aircraft pushes the unit cost of aircraft down the cost curve. Additional unit cost savings can be achieved by exporting the system, which, of course, is the classic reason market-driven trade takes place at all. However, as discussed above, direct offset can quickly nullify these gains. Assuming offsets can be anticipated, especially now that many countries have formalized policies, the intelligent U.S. subcontractor would bid a higher price for a given part or component to begin with rather than risk losing money resulting from offsets. These added costs, though hidden, will be passed on to the U.S. Defense Department.

Non-defense indirect offsets are less distorting to U.S. weapon systems. However, they do present the U.S. exporter with administrative costs and the unnatural job of marketing a variety of goods for which he has no particular expertise. These costs must be recouped in the price of the weapon system to the foreign purchaser. Also, the widely distributed, mostly negative effects these indirect offsets have on U.S. competitor firms are largely untraceable and almost impossible to assess. Only anecdotal evidence exists, and while most of this evidence reflects a negative impact, a minor portion is also positive.

Another cost to the U.S. taxpayer is the publicly funded research and development that went into the weapon system, but not recaptured by the U.S. prime when exporting the weapon system to a foreign government. The Defense Department typically waives this cost. This policy affects exports that are offset as well as those that are not. However, with offsets some of the advanced technologies incorporated in the weapon system may be transferred to the foreign purchaser essentially free of charge. This issue needs further exploration.

Offsets penalize both the foreign purchaser and U.S. taxpayers. Then, why offset? If given the opportunity, foreign national governments prefer to spend national budgets domestically. By offsetting the high-priced import of a major weapon system, a government can redirect expenditures back into its domestic economy up to the value of the offset agreement. So, instead of spending the money abroad, it is actually spent at home. Moreover, the offset may also help promote or preserve an indigenous defense base, infuse new technology into the economy, or introduce domestic firms to potential export partners.

Co-production Agreements

In economic terms, co-production is perhaps the most inefficient and costly form of offset. Co-production puts a far heavier financial burden on the purchasing country than would the outright purchase of the weapon system. In spite of this, its justification is touted on national security grounds or national aspirations. Presumably, much, if not all, of the research and development work is already accomplished when a co-production agreement is negotiated. This would be a savings to the foreign co-producer. Depending upon the specific terms of the agreement, technical data may be transferred to the purchasing country with or without compensation so that a duplicate assembly facility can be established in the purchasing country. The details of part and component sourcing may also be negotiated.

While many nations may prefer self-sufficiency in armaments production, for almost all countries the cost is prohibitive. Implicit in a nation's decision to purchase foreign weapon systems is the cost of home production vs. cost of overseas purchase. This gives military trade an economic dimension. However, other national aspirations or internal politics sometimes interfere with the decision.

Co-production deprives the original producer of production volume, while creating a clone facility in a foreign country. The production volume of aircraft in the clone facility will almost certainly be (much) less than in the original producer's facility. This establishes a higher average cost structure in both the clone facility and in the original producer's facility, whose production volume decreases by an amount equivalent to that co-produced.

In the 1980s, the Japanese co-produced about 200 F-15s at an estimated 250 percent the cost of purchase from the U.S. producer. Is Japan more secure? That can be debated. Did they achieve their national aspirations? Perhaps, but the cloned facility had very limited market potential. Once production was finished, its useful life was over and it would require a new infusion of capital to restore viability in some other area.

Other examples abound. Japan's co-production of 130 F-2 (formerly the FSX) fighter aircraft (a hybrid of the F-16) may ultimately cost the country about $100 million per plane vs. $20 million per aircraft if purchased from the United States. Japan's economy is large enough to absorb this added cost, and presumably the experience will help their ambitions to develop a commercial aircraft industry. This remains to be seen. Additional co-production agreements for the F-16 with the European Participants Group (Belgium, Netherlands, Denmark, and Norway) and Turkey also resulted in cost penalties to the co-producer countries, while reducing business for the U.S. prime. Another co-production program in Egypt was completed in early 1998. Egypt had a co-production program for 555 kits of the M1A1 Abrams tank for final assembly, and is now trying, to convert the facility to commercial operations. In general, the more expensive the weapon system, the lower its overall volume is likely to be and the less economic sense it makes to co-produce.

Turkey recently eased its offsets policy (*Defense News*, June 29-July 5, 1998, page 4), in part to encourage more international arms traders to form joint ventures with domestic defense firms. While Turkey's objective remains the establishment of a stronger domestic defense infrastructure, the Turkish Government recognized that offsets as currently structured added costs and inefficiencies to weapon systems. It is hoped that this policy will generate foreign investment and an infusion of technology transfer. This may reduce future direct co-production type arrangements with their inflated prices.

Military Export Contracts

The U.S. State Department is responsible for issuing licenses for the export of defense items covered under the International Traffic in Arms Regulations (ITAR). In each of the last several years, State has issued about 45,000-50,000 licenses (for 4-year validation periods) with a total value ranging from $20-30 billion. These licenses were issued to private U.S. firms to export items covered by the "munitions list," for what can be called commercial military exports. The foreign buyer could be a public or private entity.

The majority of State-licensed military export orders are written for less than $1 million, *and most are between private firms*. The great majority of these fall below the offset reporting threshold. However, most of these likely do not include formalized offsets because of their generally low value and the involvement of private entities. Still, much of this business may include replacement parts or service items related to major weapon systems exported previously, which could have included offsets.

The average commercial military export license was for roughly $600,000. However, the median (middle value) is much lower, at under $100,000. A few licenses may be for over a billion dollars, although most of the higher values go the Foreign Military Sales (FMS) (i.e., goverment-to-government) route. Larger contracts are almost always negotiated with a foreign government, and are more likely to include offsets. It is not known how much of the $20-30 billion is actually exported, but much of it is ultimately cancelled. Licenses are frequently acquired simply to have them ready should an emergency shipment become necessary. Also, it is often difficult to accurately plan four years out, but it is better to err on the high side and acquire a license for the greater estimate.

A review of FMS agreements, published by the U.S. Defense Security Assistance [Cooperation] Agency, indicates 8,672 FMS agreements totaling over $65.6 billion were entered into between FY1993 and FY1996. Over the same period actual FMS deliveries equaled $44.7 billion, indicating that many cancellations, perhaps as much as one-third of the business, probably have occurred or will occur. The average export agreement was for less than $7.6 million. However, this average is several times as large as the median FMS value, which would actually place the great majority of the FMS agreements below our reporting threshold.

By comparison, BXA received reports on 173 offset agreements supporting export contracts valued at $29.1 billion. These included both commercial and FMS agreements. The four-year average export contract was $168.4 million, although this varied a great deal from one year to the next. This implies that a small percentage of the total FMS export contracts and a smaller fraction of the commercially licensed exports are offset. However, even the contracts that are offset are very large and represent at least an estimated 30-40 percent of the total dollar value of military exports.

This conclusion is reinforced by various known country thresholds at which formal offsets areimplemented. Appendix D in BXA's 1997 *Offsets in Defense Trade* report included information on the export dollar value at which selected countries require offsets. The 15 cited thresholds ranged from Israel's low of $500,000 to $50 million for Taiwan. The average value was $7.9 million and the median, $1.7 million. Three thresholds were less than $1 million.

The United Kingdom, which alone accounted for more than 30 percent of total new offset agreements between 1993 and 1996, has a high threshold of $16 million. Britain is also one of the major destinations of defense products licensed by the State Department. Israel, with a lower threshold, has a low percentage of new agreements (2.4 percent), but a high percentage of offset transactions (8.9 percent). Some of these transactions emanate from agreements entered into prior to 1993. Others could be from agreements beneath BXA's $5 million reporting requirement.

Aerospace Dominates Offsets

Offset agreements are overwhelmingly tied to aerospace exports. With literally tens of thousands of parts and components per aircraft and an abundance of advanced technology, from the purchaser's view aerospace products offer ample opportunities for offsets. BXA's database (1993-1996) indicates that 91.1 percent of the dollar value of all new offset agreements ($13.8 of $15.1 billion) were written against aerospace exports. The aerospace export contracts these offset agreements referenced were 91.8 percent ($26.7 of $29.1 billion) of all the export contracts. The percentage of offsets aerospace export contracts averaged 51.6 percent.

Offset transactions told a similar story. Offset transactions referenced aerospace weapon system exports 92.7 percent ($8.56 of $9.23 billion) of the time. However, only 53.7 percent of offset transactions themselves were identified as aerospace products. This means that aerospace exports are frequently offset by non-aerospace products. The transaction breakout was $4.96 billion aerospace, $4.16 non-aerospace, and $0.11 unknown products. If just aerospace exports are matched to aerospace transactions, the relationship is about 58 percent ($4.96/$8.56 billion).

It is also evident that a very high percentage of all exported military aircraft, engines, and missiles are offset. Estimates of aerospace exports published in the Aerospace Industries Association's 1998 *Facts and Figures*, indicate roughly $14.8 billion of these systems were exported from 1993 to 1996. Judging from BXA's total of $26.7 billion in export contracts that were offset over the same period with an average term of about seven years, it is apparent offsets played a major role in moving these items.

In addition to the $14.8 billion in major system exports, AIA reported that $18.9 billion in (military) parts and components were exported. Exports of major U.S. weapons systems generate a future flow of parts exported to the after market. A large (but unknown) portion of the parts trade is accounted for in this way. In addition, foreign production of new systems, and the after market for those systems also generates parts exports from the United States. However, the parts trade is understated because of the wide cross-section of industries that feed parts into aerospace systems (e.g., software, forgings, ammunition, tires, etc.), but that are not captured as such in the official trade statistics.

Effects of Defense Industry Consolidation on Offsets

Mega-mergers and consolidations within the U.S. defense establishment have reduced the number but increased the average size of companies reporting offset activity. Some companies continue reporting under their old names, and others report as divisions of the new parent corporation. Of the 32 companies reporting new offset agreements at any time during 1993-1996, 11 have now merged with others. These same 11 are also included among the 34 reporting offset transactions. In 1993, 18 companies or divisions reported new offset agreements. In 1996, the number was 15, four of whom were now parts of larger firms.

Aside from reducing the number of firms reporting offsets, the consolidation trend could have more profound effects on offsets. Under one scenario, the stronger competitive position of merged U.S. defense prime contractors poses an increased threat to European defense firms. The stronger presence of U.S. firms and the shrinking global defense market could foster a more rapid consolidation among European defense producers and lead to a degree of isolation. One indication that this is already happening is the Eurofighter 2000, an effort by four European nations to reduce dependence on the United States. Consolidation in Europe could reduce the international market potential available to U.S. firms and in so doing reduce offsets.

However, rationalization and consolidation of defense assets have not proceeded at the European level. Rather, individual countries have done so primarily on their own, resulting in a surplus of defense assets, with numerous redundancies across Europe. A more likely scenario is that defense budgets will drop further, and consequently reduce the market for U.S. weapon systems. Such a drop would have little connection to consolidation.

Under a rosier scenario, company consolidations could extend across national borders and increase the participation of foreign entities in the development and production of new U.S. weapon systems. This could also occur by partnering or joint venturing, as well as by acquisition, with foreign entities. For example, the Joint Strike Fighter program seems to be evolving multi-nation program without offsets. Currently, the program has U.S., U.K., Dutch, and Canadian participation. In other areas, the U.K.'s General Electric Company recently acquired Tracor. In the last decade, the U.K.'s Lucas Aerospace (now part of Rolls-Royce) purchased Western Gear, and Rolls-Royce bought Allison Gas Turbine.

It's also conceivable the U.S. and allied foreign governments will encourage such developments, and combine defense budgets to develop future weapon systems. This would spread costs and benefits across borders, and help eliminate redundancies. Assuming all participants share in costs and profits, it would also provide incentives to market the system as widely as possible. Offsets would then be less of a factor, except in sales to third parties.

In another scenario the U.S. government could elect to develop and produce weapons domestically on national security grounds. This option may be a more expensive choice in light of the increased complexity and cost of the latest aircraft. It may also serve to increase offsets above current levels, particularly in aerospace defense trade, assuming a higher proportion of ultimate production of aircraft may be exported than in the past.

Historical Review, 1980-1996

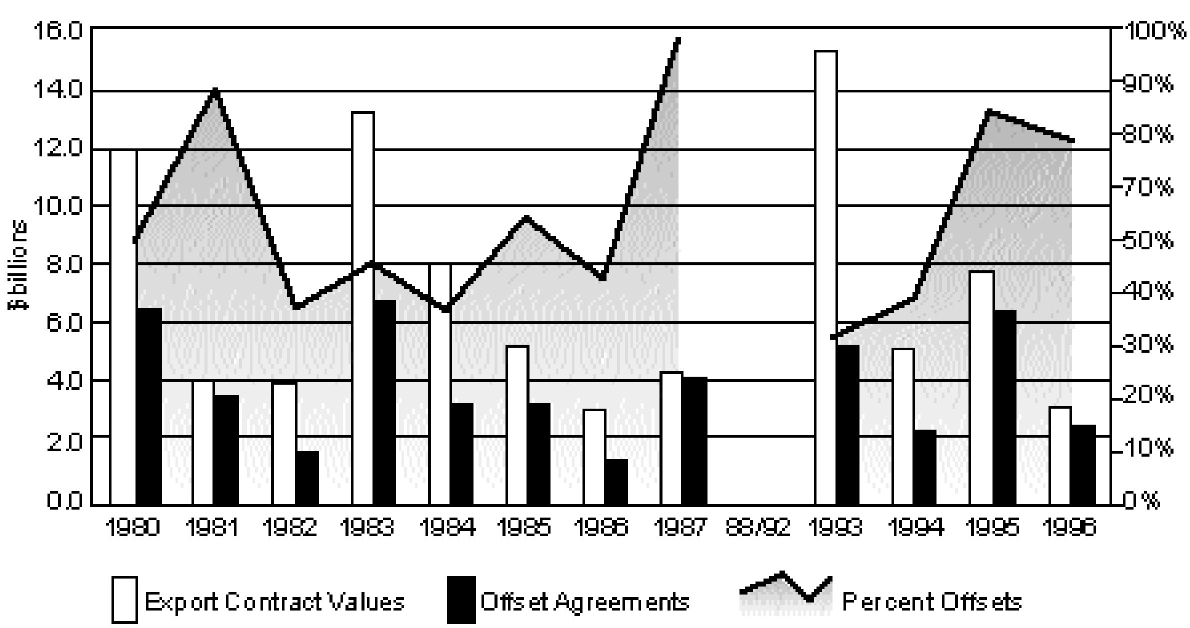
The Office of Management and Budget (OMB) was responsible for reporting on offsets under the Defense Production Act (of 1950), Section 309, beginning in 1984. Acting under that authority in 1988, OMB tasked the U.S. International Trade Commission (ITC) to collect offsets data from defense prime contractors for the years 1980 through 1984. The collection required a response from the prime if any military export sales contract valued at $500,000 or more was countered by an offset agreement of any magnitude. ITC sent a mandatory survey to 52 defense prime contractors, of whom 36 returned completed surveys. A similar data collection, also covering 1980 through 1987, was made by the Commerce Department's Bureau of Economic Analysis for OMB a few years later.

BXA's offsets database differs from OMB's information in method of collection and minimum value reporting requirements. Military exporters are required to submit a report annually to BXA for any offset agreements (as opposed to export sales contract) valued at $5 million or greater and/or offset transactions valued at $250,000 or more. The export contract value is also reported, but its size is incidental. BXA has reports from 32 companies as opposed to OMB's 36 companies, which reported to OMB before defense downsizing and consolidation reduced the number of companies.

OMB published this information in December 1988 in their *Offsets in Military Exports* report. The OMB information was restated and summarized in the Commerce Department's first offset report, *Offsets in Defense Trade* established in May 1996. BXA combined the OMB information with offset data submitted by defense prime contractors for 1993 to 1996. No offset data was collected from 1988 to 1992.

Chart 1 includes OMB's offset data and that received by BXA. The data is presented in constant 1996 dollars using the Commerce Department's 1996 GNP deflator as calculated by the Bureau of Economic Analysis. Three elements are shown on the graph: the value of export sales contracts (the white bar); the value of offset obligations (the black bar); and the percent offset obligations to the value of export sales contracts (the line).

Chart 1. New Offset Agreements: Selected Years (in Constant 1996 Dollars)



Source: *Offsets in Military Exports*, OMB, and BXA's Offset Reporting Data

The chart shows the great changeability in annual data for all three variables. For example, the percentages of offset obligations to new export contract values have been less than 35 percent (1993), and greater than 98 percent (1987). In a year, just one or two large contracts can have a major impact. In 1993, an export contract of nearly $6 billion was negotiated with Taiwan with limited offsets. If this particular sale were removed, the overall percentage of new offset obligations would jump from 34.5 percent to 52.1 percent in 1993. Similarly, removal of a major Middle Eastern sale that same year would push the offset obligation to nearly 70 percent.

Invariably, higher offset percentages are correlated with greater concentrations of offset activity in Europe and other developed nations. In both 1995 and 1996, European nations accounted, for over 80 percent of total new offset obligations and a majority of the export contracts. This is in contrast to less than 50 percent in the two prior years. However, for the latter two consecutive years the percentage of offsets remained greater than 75 percent for the first time.

The overall offset to export contract ratio for the eight years from 1980 to 1987 was 57 percent. This compares with 52 percent for the four years from 1993 to 1996. However, the cumulative average percent of obligations rose each successive year after 1993 as more activity was focused on Europe. This may indicate offset obligations over time converge around the 50-60 percent range. If the OMB data were broken into two consecutive four-year periods, both offset subtotals would range in the 50-60 percent range (i.e., 56 percent from 1980-1983, and 59 percent from 1984-1987).

STATISTICAL ANALYSIS

BXA Data 1993-1996

BXA now has four years of offset data. In deference to the reader, more graphics are utilized in this report to present this data. Also, greater emphasis is placed on analysis of four-year totals and averages. Year-to-year changes in offset variables are highly volatile and unpredictable. Longer time periods help to moderate this volatility and perhaps offer a truer picture of offset trends and impacts. However, key annual data will continue to be reported.

The four regions - Europe, Middle East, Pacific Rim, and Other Areas - used to present the offset data in the last two BXA offsets reports were selected on the basis of data then available and to protect company proprietary data. It is now apparent that this arrangement is no longer necessary, especially in 1995 and 1996, when European offsets overwhelmingly dominated the data. With four years of data, selected country data can now be referenced without disclosing company proprietary data.

Data Qualifications

The BXA data from 1993 to 1996 contains: 1) new offset agreements valued at $5 million or more [Of 173 agreements, BXA received seven agreements for less than $5 million and four others where no offset value was reported. These agreements do not significantly impact the overall totals.] 2) export contract values related to these new agreements, and 3) offset transactions valued at $250,000 or more completed during the reporting period. [Of 2,277 transactions BXA reviewed, 251 had actual values of less than $250,000. Thirty-one transactions had negative values, which were mostly accounting adjustments to previous reports, or cancellations of reported transactions. There were also 17 zero actual value entrees, but most of these had large credit values. The effect of these 251 transactions was to reduce total, actual transactions by a net $45.6 million, and increase credit transactions by $330.3 million.]

Offset Transaction Analysis

Description	#	Actual Value	Credit Value
Negative Values	31	($64,888,000)	($64,896,000)
Zero Actual Values	17	$0	$152,376,000
Less than $250,000	203	$19,321,695	$242,810,001
Net Total	251	($45,566,305)	$330,290,001

Summary

During 1993 to 1996, 32 U.S. companies reported entering into 173 new offset agreements, with foreign governments equal to $15.1 billion. They had an average term of 87 months, or 7.25 years. The agreements supported $29.1 billion in export contracts, and were concluded with 28 countries to complete the offsets. In the aggregate, the offset agreements represented more than 52 percent of the export contract values.

A total of 34 U.S. companies reported 2,277 offset transactions valued at $9.2 billion, for which they received offset credits of $10.7 billion. These transactions were executed in 31 countries. About 38 percent of the value of the transactions were direct offsets, 58 percent indirect, and 4 percent unspecified. About 73 percent of the transactions' value were subcontracting activity purchases, or technology transfer. Roughly two-thirds of the transactions referenced offset agreements that predated 1993; the remaining third were against agreements struck in 1993 or later.

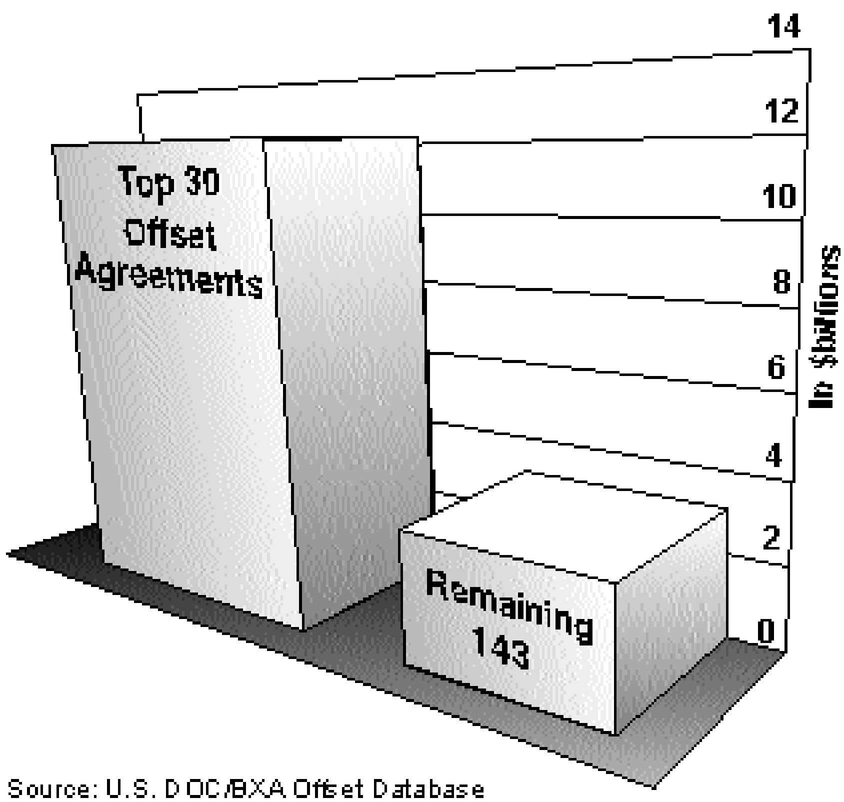
Concentrated Nature of Offset Activity

Five U.S. companies accounted for over 78 percent of the value of new offset agreements, and nearly 82 percent of export contract values. More than 70 percent of the new agreements' value were concluded with just five countries, and about 80 percent with just eight countries. The largest 10 percent of new offset agreements represented 68.5 percent of the total value of all new agreements, while the top 10 percent of export contracts were 72.5 percent of total export contracts. In addition, just 10 of 103 weapon systems referred to in the export contracts accounted for 65 percent of export contract values, and 64 percent of the value of new offset agreements.

Offset transactions are also concentrated. Five companies reported 80.5 percent of the total value, and nine reported over 91 percent. Also, five (of 32) countries accounted for 58 percent of all transactions, and eight for 72.5 percent. In addition, just five of the 150 different weapon systems referenced in the offset transaction reports accounted for 53.4 percent of the total transaction value. The top 10 (of 922) offset recipients, including public and private entities, accounted for 24 percent of the value of total transactions.

Chart 2 compares the largest 30 offset agreements to the remaining 143 agreements. The number of agreements in each category is reflected on the x-axis and the dollar value (in $billions) on the y-axis. The top 30 agreements totaled $12.2 billion, or over 80 percent of all agreements. The other 143 agreements totaled $3.0 billion. Offsets as a percentage of export contracts were about the same for the two groups; 51.7 percent for the largest 30 agreements, and 53.3 percent for the smaller 143 agreements.

Chart 2. Dominance of Large Offset Agreements



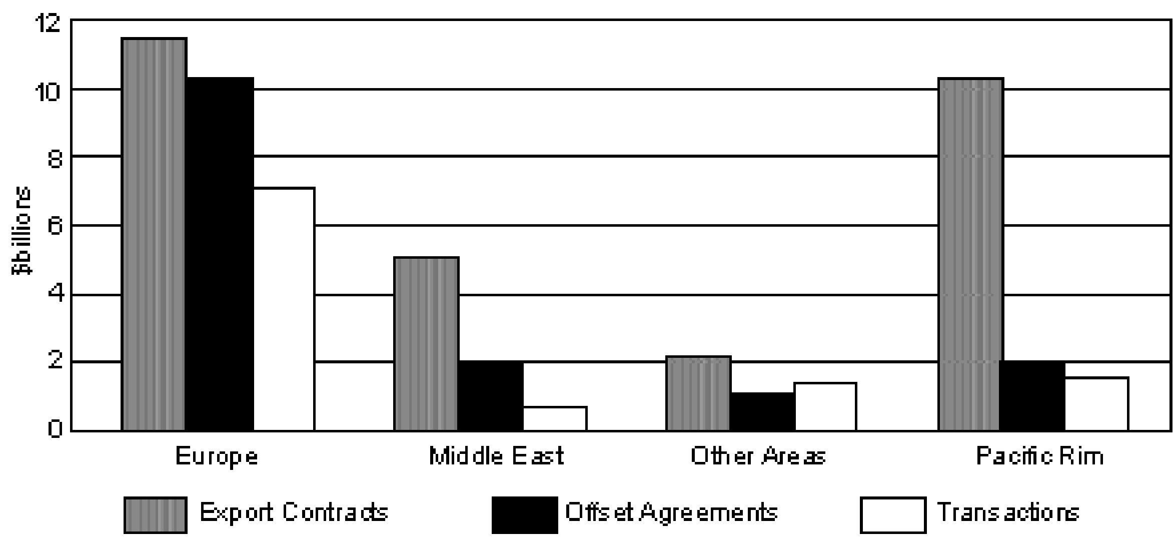
Note to Chart 2

Statistically, the mean of the 173 offset agreements was $87.6 million, but the distribution has a very large average deviation of $110 million and even larger standard deviation of $236 million. This raises the question of whether these agreements could better be described as separate categories based on value as shown in Chart 2. Also, the median (or middle) value, between the 86th and 87th agreement, was about $17.5 million, or only one-fifth of the mean, revealing the obvious: a very top-heavy distribution. If these parameters were based solely on the smaller 143 agreement group, the average deviation would drop to about $15 million and the standard deviation to $21 million. The mean would be just under $22 million, and the median $14.5 million.

Among regions Europe dominates the global totals. In four years, European countries entered into 94 new offset agreements valued at more than $10 billion. The agreements countered about $11.3 billion in export contracts. New offset obligations with European nations were more than 67 percent of the total dollar value of all new offset agreements. These were attributed to less than 40 percent of all new export contracts. Non-European areas collectively contracted to purchase $17.8 billion in U.S. weapon systems, and countered these with $5 billion in offset agreements. These offsets were only 28 percent of export contracts, in strong contrast to the 90 percent for Europe. Two large export contracts mentioned previously accounted for nearly $10 billion (or 56 percent) of the non-European total export contracts, and each had low levels of offset requirements.

Chart 3 presents a four-year summary of offset-related defense trade on a regional basis. The chart includes export contracts, new offset agreements, and transactions for the regions, and clearly shows Europe's dominance in both new agreements and transactions, along with its proportionately smaller share of export contracts. The large 1993 export deals with Taiwan in the Pacific Rim and Saudi Arabia in the Middle East are also reflected on the chart.

Chart 3. Export Contracts, Offset Agreements, and Transactions by Region, 4-Year totals (1993-1996)



Source: U.S. DOC/BXA Offset Database

The Other Areas Region (i.e., Israel, Canada, Australia, and New Zealand) shows a greater value for transactions than new obligations. Since most transactions are based on offset agreements entered prior to 1993, this simply indicates a slow down in defense purchases and related offset activity during the 1993-1996 period. Of all the regions, only Europe appears to have fairly balanced proportions between new agreements and offset transactions, perhaps due to the large number of agreements and transactions that would seemingly smooth out distortions. However, it could also indicate Europe has stricter offset enforcement policies.

New Offset Agreements: Summary

Table 1 presents an annual summary of new offset agreements by region.

Table 1. New Offset Agreements, 1993 to 1996

Region	Deals	Export Contracts $millions	Offset Agreements $millions	% Offsets	Terms Months
1993					
Europe	14	2,985.0	2,338.1	78.3%	84
Middle East	4	4,143.9	1,462.1	35.3%	96
Other Areas	4	98.5	50.5	51.3%	83
Pacific Rim	7	6,717.7	943.8	14.1%	78
Total	**29**	**13,945.0**	**4,794.4**	**34.4%**	**84**
1994					
Europe	20	1,508.2	764.8	50.7%	88
Middle East	6	819.2	417.3	50.9%	88
Other Areas	14	549.5	358.4	65.2%	63
Pacific Rim	9	1,915.4	508.1	26.5%	72
Total	**49**	**4,792.4**	**2,048.7**	**42.8%**	**78**
1995					
Europe	26	4,944.3	5,159.2	104.4%	104
Middle East	2	68.7	26.4	38.4%	72
Other Areas	9	1,378.9	547.1	39.7%	76
Pacific Rim	8	1,010.1	301.3	29.8%	80
Total	**45**	**7,402.0**	**6,034.1**	**81.5%**	**93**
1996					
Europe	34	1,924.1	1,919.1	99.7%	104
Middle East	1	50.0	25.0	50.0%	90
Other Areas	8	206.6	106.6	51.6%	75
Pacific Rim	7	807.1	220.0	27.3%	53
Total	**50**	**2,987.8**	**2,270.7**	**76.0%**	**92**
4-Year Totals					
Europe	94	11,361.8	10,181.3	89.6%	98
Middle East	13	5,081.8	1,930.8	38.0%	88
Other Areas	35	2,233.5	1,062.7	47.6%	71
Pacific Rim	31	10,450.3	1,973.2	18.9%	71
Grand Total	**173**	**29,127.3**	**15,147.9**	**52.0%**	**87**

Source: U.S. DOC/BXA Offsets Data Base

The value of 1996 new offset agreements was down sharply from 1995, and well below the four year averages. In 1996, reported new agreements of $2.27 billion supported $3 billion in new export contracts. New offset agreements were down over 60 percent from the $6 billion reported in 1995, and more than 40 percent below the (four-year) average of $3.8 billion. Europe was again the dominant player, with $1.92 billion (or 85 percent) of the 1996 new agreement total. Europe's new offset obligations represented almost 100 percent of the export contracts ($1.92 billion) they referenced. This percentage was down slightly from the 104 percent Europe logged in 1995. The 1995 agreements' data was unusual in that it was dominated by three very large offset agreements U.S. firms negotiated with European nations. These three agreements alone were nearly two-thirds of that year's total.

Worldwide, new offset agreements as a percent of export contract values fell to 76 percent from about 81 percent in 1995. The 1996 figure, however, is considerably higher than the four-year average of 52 percent. The 1995 and 1996 percentages of offsets to export contract values were the third and fourth highest levels recorded since 1980. The large differences in these numbers are explained in part by the major regional and national differences in offset requirements, combined with the apparent random occurrence of export sales to any of those places.

As part of the offsets reporting requirement, U.S. prime contractors were requested to provide the name and title of the signatories to the new offset agreements. Of the 173 new agreements reported from 1993-1996, 116 include foreign signatories information. Table 2 lists the number of signatories that were foreign companies, and those that were foreign government entities, either civil or military.

Table 2. New Offset Agreements Signatories by Category

Foreign Company	9	7.7%
Foreign Government - Civil	54	46.6%
Foreign Government - Military	53	45.7%
Total	116	100%

Source: U.S. DOC/BXA Offsets Database

These organizations ranged from very large to small firms, and included several dozen foreign government agencies, mostly from South Korea, Australia, and Greece. Government entities were about evenly split between defense and civilian agencies. Some countries, such as Israel and the Netherlands, had military subdivisions located within civilian ministries that were listed as signatories. These were counted as civilian agencies. Goverment entities were listed under various names, such as the Ministry of Defense, Ministry of Economic Affairs, Department of Industrial Development, Committee for Aviation and Space Industry Development, and several scientific research institutes.

Military entities comprised 46 percent of the signatories while non-military signatories totaled 54 percent. The non-military entities were either foreign companies or civil government entities. While the new agreements reports received by BXA did not include the split between direct and indirect offsets, based on country transactions data no correlation was evident between the level of direct offsets and the foreign signatory's affiliation to military or civilian government agencies.

Table 3 presents signatory information for selected countries. The countries shown represented about $9.1 billion of the value of all new offset agreements, or almost 60 percent. Offset transactions for these countries totaled $4 billion, which by comparison is only 43 percent of all transactions, which indicates this percentage will increase in the future. However, because of the presence of the United Kingdom, Israel, and South Korea, these countries have a higher incidence of direct offsets at $1.96 billion (about 50 percent) than contained in the overall figures (38 percent), which implies that direct offsets will also increase.

Table 3. Selected Country Signatory Profiles

	Total # of	Foreign Signatory		Affiliations	
Country	**Agreements**	**Military**	**Civil**	**Private**	**Unknown**
United Kingdom	19	15	1		3
Netherlands	13		12		1
Switzerland	5	1	2		2
Israel	16	1	7		8
South Korea	12	6	2		4
Canada	13	2	8	1	2
Totals	**78**	**25**	**32**	**1**	**20**

Source: U.S. DOC/BXA Offsets Database

Offset Transactions

Table 4 summarizes offset transactions from 1993-1996. During these four years, 34 companies reported 2,277 transactions to 922 different offset recipients in 31 different countries. [In addition to the 31 separately identified countries, a small number of transactions ($45.7 million or less than 0.5 percent) were reported for NATO, the European Participating Group (Belgium, the Netherlands, and Norway), and for Sweden/Norway combined.] The transactions referenced 150 different weapon systems. The value of these transactions was $9.2 billion, with a credit value of $10.7 billion. About two-thirds of the transactions were based on offset agreements written before 1993. Of the 103 weapon systems in new offset agreements in the BXA database (1993 and later), 78 have reported transactions.

Table 4. Offset Transactions Summary, 1993-1996

Transaction Data	1993	1994	1995	1996	4-Year Total
# of Companies Reporting	23	21	20	21	34
# Reported Offset Transactions	493	550	667	621	2,277
# of Different Countries Reported	26	25	25	25	31
# of Different weapon systems	63	61	73	78	150
# of Different Transaction Recipients	259	318	373	367	922
Offset Transactions by Region					
Europe	296	355	410	401	1,462
Middle East	16	22	36	30	104
Other Areas	82	94	161	126	463
Pacific Rim	45	79	60	64	248
Offset Transactions by Region (in $millions)					
Actual Values: Total	**$1,814.9**	**$1,891.1**	**$2,661.0**	**$2,862.4**	**$9,229.4**
Europe	$1,377.1	$1,149.5	$1,767.2	$1,828.9	$6,122.7
Middle East	$53.3	$47.3	$135.5	$217.8	$453.9
Other Areas	$211.7	$282.3	$484.6	$357.9	$1,336.5
Pacific Rim	$172.8	$412.0	$273.7	$457.8	$1,316.3
Credit Values: Total	**$2,155.1**	**$2,161.5**	**$3,333.4**	**$3,066.9**	**$10,716.8**
Europe	$1,609.1	$1,277.4	$2,076.1	$2,117.2	$7,079.8
Middle Ease	$116.7	$109.9	$159.3	$229.6	$615.5
Other Areas	$249.9	$283.6	$481.0	$358.2	$1,372.7
Pacific Rim	$179.4	$490.5	$616.9	$361.9	$1648.7

Source: U.S. DOC/BXA Offsets Database

European countries accounted for 64.2 percent of the actual value and 66.3 percent of the credit value of total transactions. The top five European countries - Finland, United Kingdom, Switzerland, the Netherlands, and Spain - accounted for 51.3 percent the (actual value) world total and almost 70 percent of the European total. Israel, South Korea, Turkey, Germany, and Canada, along with the five listed European nations, make up the top 10, and collectively account for nearly 80 percent of the world total. NATO countries accounted for $3.95 billion (43 percent) of the transactions value.

In 1996, a total of 621 offset transactions valued at $2.86 billion were reported, with a credit value of $3.07 billion. The 1996 values were the largest for transactions for the four years, and capped off four years of steady increases. The 1996 value was almost 8 percent more than 1995 values, although this was not as dramatic as the 40 percent increase observed between 1994 and 1995.

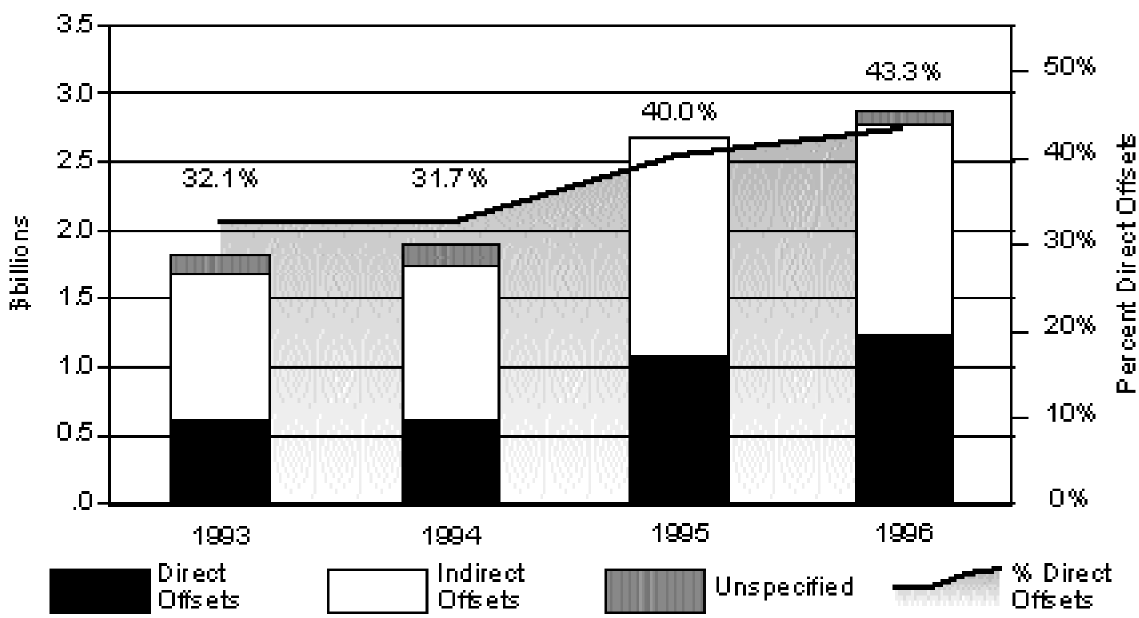
European nations accounted for the bulk of the value of offset transactions for the fourth consecutive year; in 1996 about 64 percent were with Europe. Direct offset transactions rose to about 43 percent in 1996, up from the 40 percent recorded the prior year. This was largely accounted for by substantial increases in subcontractor activity in Europe, especially in the United Kingdom, and a very large jump in direct technology transfer to the Pacific Rim. The European increases in subcontractor activity were moderated somewhat by a large decrease in the "Other Areas" region (Israel, Canada, and Australia).

The 1996 offset transactions reports were based on 78 different exported weapon systems seven of which appeared for the first time.

Offset Transactions by Type

From 1993 to 1996, 37.8 percent of the offset transactions were direct, 58.2 percent were indirect, and 4 percent were unspecified. Chart 4 shows offset transactions by type of offset for each year from 1993 to 1996. Along with total transactions, the value of direct transactions rose each year. Total transactions increased most sharply between 1994 and 1995, when they rose from $1.89 to $2.66 billion, a 41 percent jump. That year very steep increases were reported for both the United Kingdom and Israel. Both nations had a high level of direct aerospace offsets, which is why direct offsets shot up from about 32 to 40 percent that year. Direct offsets rose again in 1996 for the same reason.

Chart 4. Offset Transactions, Direct and Indirect (1993 to 1996)



Source: U.S. DOC/BXA Offsets Database

The absolute increase in 1995 in direct offset transactions was over $400 million ($600 million to $1.06 billion), a 77 percent increase. Indirect offset transactions also rose by a substantial amount from $1.13 to $1.6 billion (up 42 percent), which partly balanced out the direct increases. The nearly $500 million jump in indirect offsets was due to large increases in transactions from Finland, Switzerland and Malaysia.

Countries varied widely in how offset transactions were allocated between direct and indirect. The allocation was often closely linked to the size of the country's indigenous aerospace sector. Generally, countries with established aerospace sectors tended to fulfill offsets with aerospace and these were most often direct. In fact, almost two-thirds (63.1 percent) of all aerospace products, transactions ($3.13 of $4.96 billion) were direct offsets. Moreover, aerospace products accounted for 90 percent of all direct offsets. This is entirely consistent with the 90 percent plus exports of aerospace weapon systems that offset transactions refer back to.

About 29.9 percent of aerospace products offsets ($1.48 of $4.96 billion) were indirect, and the remaining seven percent ($348 million), unspecified (i.e., direct or indirect portions unknown) transactions. Total aerospace product offset transactions ($4.96 billion) represented 53.7 percent of all transactions ($9.23 billion). About $49 million (1 percent of the total) of aerospace product transactions referenced to non-aerospace weapon system exports; this accounted for 7.4 percent of the $662 million in transactions referenced to non-aerospace system exports. Countries with smaller aerospace sectors tended to offset more frequently in non-aerospace areas, and most of these transactions were indirect. Offset transactions identified as non-aerospace products accounted for about 70.4 percent of total indirect offsets ($3.78 of $5.38 billion). Indirect aerospace transactions accounted for most of the remainder (27.6 percent) and the unknown industry category the rest (2 percent). The $368 million in unspecified offset transactions were mostly aerospace products (94.8 percent). Table 5 summarizes the above information.

Table 5. Offset Transactions by Industry Group and type
1993-1996 Summary (Actual Values)

	Direct Offsets		**Indirect Offsets**		**Unspecified**		
Industry Groups	**$billions**	**%**	**$billions**	**%**	**$billions**	**%**	**Totals**
Aerospace	$3.128	89.7%	$1.483	27.6%	$ 348	94.8%	$4.961
Non-Aerospace	$0.358	10.3%	$3.783	70.4%	$.019	5.2%	$4.160
Unknown	______	______	$0.109	2.0%	______	______	$0.109
Totals	**$3.487**	**100%**	**$5.375**	**100%**	**$0.367**	**100%**	**$9.229**

Source: U.S. DOC/BXA Offsets Database

Eighteen countries (of 31 total) had offset transactions exceeding $100 million during the 1993 to 1996 period. Table 6 lists these 18 countries with percentage information shown by industry category and type offset. These 18 countries accounted for 95.8 percent of total transactions ($8.84 of $9.23 billion). The five countries with the highest value of transaction Finland, Britain, Israel, South Korea, and Switzerland. The 18 countries are ranked on Table 6 by percent aerospace transactions of total transactions. All 18 countries had aerospace transactions. Australia is ranked first with 87.2 percent of reported transactions in aerospace related products.

Note that 34 percent of Australia's total transactions are direct transactions of aerospace products. Another 11.3 percent of the Australia's transactions are direct non-aerospace products, for a country total of 45.3 percent directs. Not all countries' category totals add to 100 percent (Taiwan for example) because of the unknown industry category, which is not shown on Table 6. All unknown industry transactions, however, were indirect offsets and represented only 1.2 percent of the total transactions.

Table 6. Offset Transactions by Type and Country
Aerospace and Non-Aerospace, by Percent, 1993-1996

	Aerospace Offset Transactions				Non-Aerospace Transactions			
Country	% Direct	% Indirect	% Unspec.	Total %	% Direct	% Indirect	% Unspec.	Total %
Australia	34.0	29.9	24.3	87.2	11.3	1.4		12.8
Belgium	82.0	2.2		84.2		15.8		15.8
Israel	56.6	7.3	14.9	78.7	0.1	20.8		21.0
Taiwan	0.4	77.4		77.8	9.75	5.0		14.7
Denmark	46.6	27.9		74.4		25.6		25.6
U.K.	57.6	15.9		73.5		26.5		26.5
Turkey	36.9	31.0		67.9	1.2	30.9		32.1
France	21.3	43.6		65.0		35.1		35.1
Spain	57.2	0.8	5.8	63.7		36.2		36.2
S. Korea	34.3	25.8	3.3	63.5	33.2	3.2	0.1	36.6
Canada	3.1	39.9	5.3	58.3	5.6	36.1		41.7
Netherlands	34.2	4.5	18.8	57.4	0.1	42.5		42.6
Germany	29.2	17.3		46.4	5.8	47.6		53.4
Switzerland	26.6	11.8		38.3		59.0		59.0
Norway	17.1	17.6		34.7		52.1	13.3	65.3
Finland	20.9	9.4		30.2		68.5		68.5
Greece	18.3	7.9		26.1	0.7	72.3		72.9
Malaysia		12.8		12.8	2.4	68.6		70.9
All Countries	**33.9**	**16.1**	**3.8**	**53.8**	**3.9**	**41.0**	**0.2**	**45.1**

Source: U.S. DOC/BXA Offset Database

Twelve of the 18 countries had more than half the value of their offset transactions in aerospace products; 10 had more than 60 percent, including three of the top five; and six countries, including the United Kingdom and Israel of the top five, had more than 70 percent in aerospace. For all countries, including those not listed on the table, aerospace transactions averaged 53.8 percent.

The relative share of aerospace transactions was highest in 1994, when it exceeded 60 percent. However, direct offsets were at a four-year low in 1994 at less than 32 percent. That year Britain and Israel were not in the top five and Taiwan transactions rose rapidly due to the previous year's large export sale. The aerospace share of total offset transactions' was about per 51 per cent in 1993 and 1995, and rose to 53 percent in 1996. Direct offsets in the aerospace category represented 33.9 percent, compared with only 3.9 in the non-aerospace sector. Six countries showed less than half of their aerospace transactions as direct (Australia, Taiwan, France, Canada, Norway, and Malaysia).

Indirect credit values were generally higher relative to actual values than were credit values for direct transactions. While indirect credit values were 24.4 percent higher than their reported actual values, direct credit values were only 12.1 percent higher. Credit values for aerospace indirects ($1.92 billion) were 29 percent higher than actual values, although most countries were well below the 29 percent figure. Five countries - Taiwan, France, Norway, Portugal, and Israel accounted for nearly all of the higher value. Credit values for direct aerospace transactions were primarily 1.3 percent higher than actual. Many countries showed credit values that were smaller than actual values. In comparison, non-aerospace credit values were 23 percent higher than actual values for indirect transactions, while directs, from a very small base, were slightly more than twice as large.

Direct Offsets May be Slightly Understated

Direct offsets may be slightly understated because of the hidden "unspecified" transactions, which could be mostly direct. About 95 percent of the unspecified offset transactions ($348 of a total of $367 million) were aerospace products. About two-thirds of total aerospace transactions were direct offsets. If the unspecified offsets follow this pattern, they would increase overall direct transactions by 2 or 3 percent.

This does not negate assertions in the two previous BXA offset reports that indirect offsets have increased. If the same logic is applied to the 1988 OMB report on offsets, it may actually reinforce the assertion. The OMB report stated that during the eight years (1980-1987) direct offsets were 36.8 percent; indirect were 41.3 percent; and unspecified were 21.9 percent. If the two-thirds rule is applied to the unspecified portion, then over 50 percent of the OMB total transactions would be direct. If the unspecified were simply made proportional to the known direct and indirect, the OMB direct transaction value would still be over 47 percent, while the BXA proportional split would be 39.3 percent.

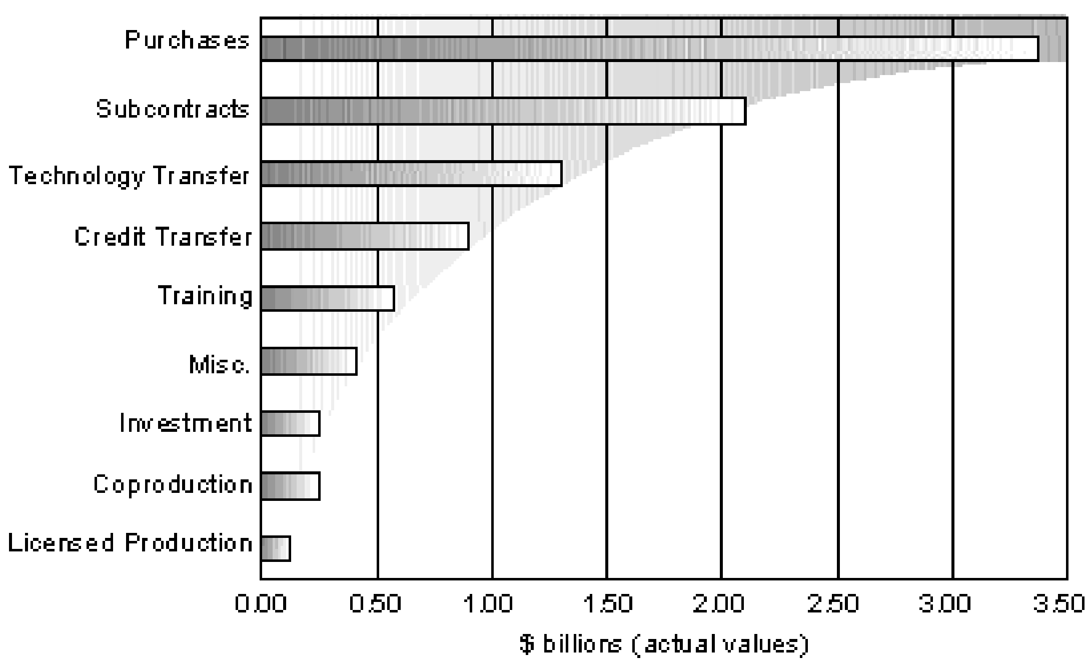
Also, it appears logical that direct offsets should be declining. With falling defense budgets and more countries shrinking their defense industries, the opportunities for direct offsets have declined. Moreover, aerospace product exporters may prefer indirect offset transactions, which are less disruptive to their companies.

Note: Co-production agreements with Japan and other countries are not included in the BXA database. Co-production is direct and would increase the direct total substantially.

Offset Transactions by Description

Chart 5 shows the breakdown of offset transactions for 1993-1996 by method of fulfillment. Purchases, subcontracts, and technology transfer (in that order) dominated offset transaction activity (actual values). Their combined values ($6.74 of $9.23 billion) represented 73.1 percent of the four-year total of offset transactions. Purchases ($3.36 billion), all indirect, were more than one-third (36.5 percent) of total offsets, while subcontracts ($2.09 billion), all direct, were 22.7 percent of the total. Technology transfer was $1.29 billion (14 percent of total). Credit transfers totaled $900 million and were just under 10 percent of the total.

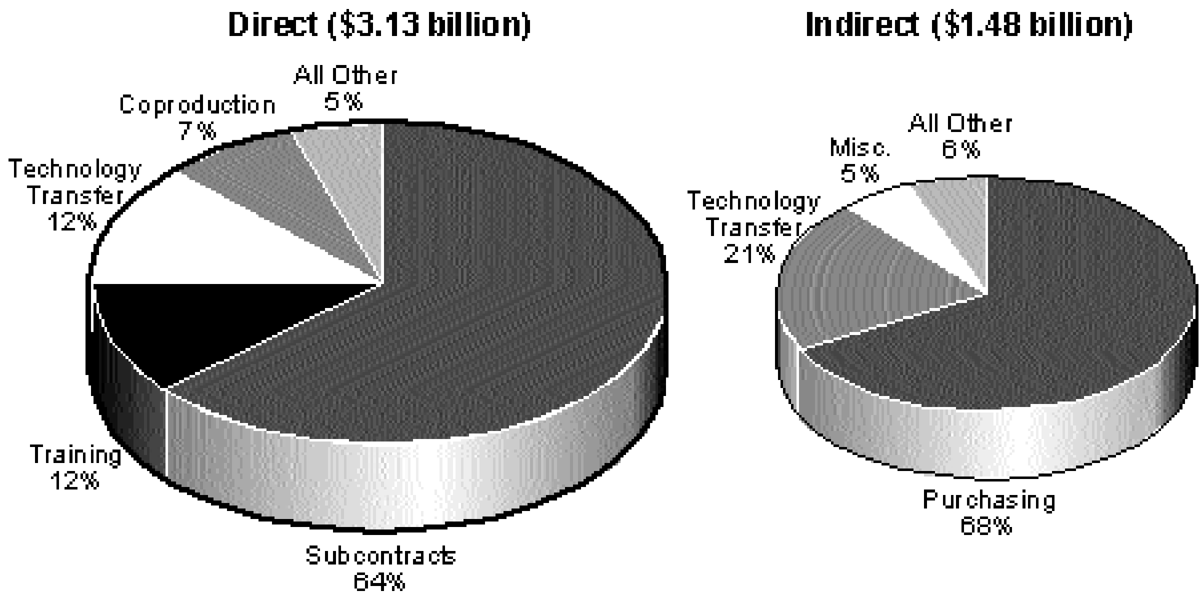
Chart 5. Offset Transaction Descriptions, 1993-1996



Source: U.S. DOC/BXA Offset Database

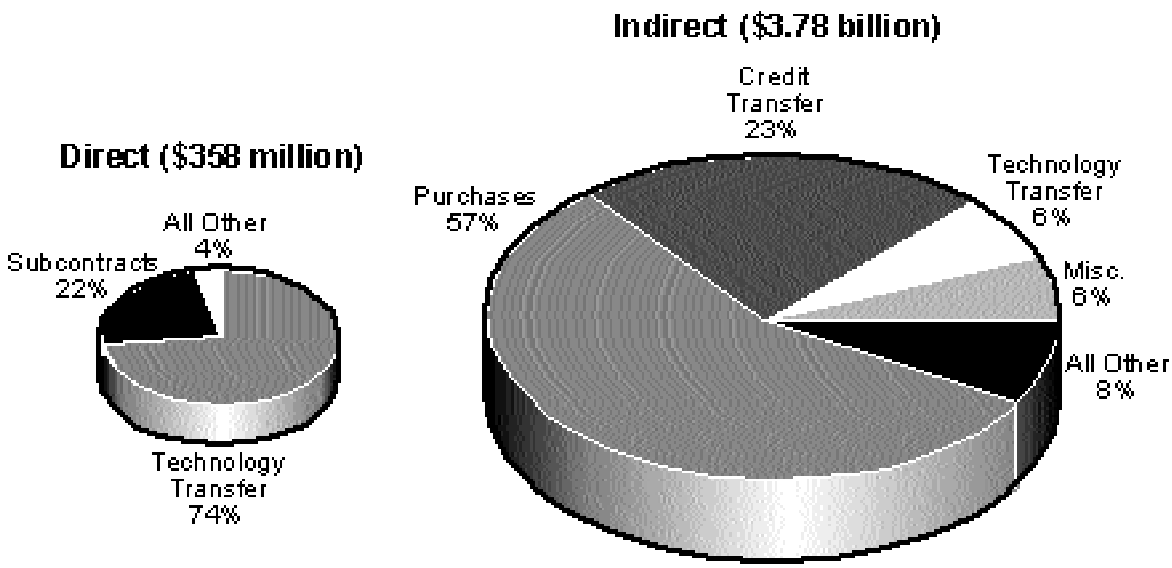
Purchases accounted for more than half of the number of all transactions (1,209 of 2,277), averaging about $2.78 million per purchase. Individual purchase transactions could be bundles of items, such as cellular phones, or single items such as an oil rig. More expensive purchases included computer software, a cable-laying vessel, and medical supplies. Some of the less expensive purchases were food stuffs and wire cutting equipment.

Chart 6. Aerospace Offset Transactions by Type and Description, 1993-1996



Source: U.S. DOC/BXA Offset Database

Chart 7. Non-Aerospace Offset Transactions by Type and Description



Source: U.S. DOC/BXA Offset Database

Subcontracts were a distant second with 477 reported transactions, but the average transaction was considerably higher at $4.39 million per subcontract. There were 189 technology transfer transactions and these averaged $6.82 million. Only 48 credit transfer transactions were reported, and these averaged $18.75 million.

In terms of credit values, the profile by offset description is about the same, although the top three categories are each somewhat less. The combined percentage of the top three credit values was 68.2 percent instead of the 73 percent recorded for actual values. The categories with the largest differences between actual and credit value were investment (plus 99 percent), miscellaneous transactions, which included mostly marketing or business assistance (plus 61.5 percent), and training (plus 43.5 percent). For all categories, credit transaction values were $1.49 billion more than actual values, or about 16.1 percent higher. The three with the largest multiples mentioned above represented about half the increase ($746 million), although their actual total was only 13.3 percent of overall actual transactions.

Charts 6 and 7 present offset transactions by type and description for the aerospace and non-aerospace sectors. Transactions not specified as either direct or indirect ($368 million) and transactions of unknown industry sector ($109 million) are not included in the charts. Together these transactions accounted for about 5 percent of the total.

Chart 6 shows direct and indirect aerospace transactions. About two-thirds of direct aerospace offset transactions ($1.99 of $3.13 billion) were subcontracts. Subcontracts may conceal the partial involvement of licensing, technical data exchange, training or know-how transfer needed to establish qualified subcontractors. These additional costs vary from country to country and may be quite low for countries with strong aerospace infrastructures. The United Kingdom and Israel accounted for more than half the subcontracting activity, and both countries have strong aerospace subcontractors. Also, over 99 percent of both U.K. and Israel's total direct aerospace offsets were subcontracts. It appears these countries are motivated to maintain their defense infrastructures. Germany had over 83 percent of its direct transactions in subcontracts and France had 100 percent, although the French quantity was small relative to indirect offsets. Nineteen other countries had subcontract activity, but all were small quantities.

Other direct transactions included training and technology transfer, each about 12 percent. Training transactions $380 million. These were predominantly reported in Finland, South Korea, Turkey, and the U.A.E., which accounted for about 88 percent of the total. Eight other countries shared the rest. Technology transfer totaled $367 million. Finland, Spain, and Switzerland accounted for about 77 percent of these offsets and nine others made up the rest.

Indirect aerospace offset transactions totaled $1.48 billion, slightly less than half of the directs. Sixty-eight percent ($1 billion) were purchases, the indirect counterpart to direct subcontracts. Leading countries included Britain, South Korea, Canada, and Turkey. These four accounted for almost 48 percent of the total. An unknown portion of these were defense-related. Technology transfer was the only other significant offset among indirect aerospace transactions, making up 21 percent. Over 90 percent of reported technology transfer were accounted for by just three countries: Taiwan, Finland, and South Korea.

Chart 7 shows non-aerospace transactions. The direct transactions were small at only $358 million. These were predominantly technology transfer ($265 million) and subcontracts ($79 million). South Korea was the major factor in the technology transfer offsets, while Australia, Taiwan, and Germany dominated the subcontracting activity.

The indirect non-aerospace transactions were more than ten times greater than the directs, and were valued at $3.78 billion. These were mostly purchases and credit transfers. The purchases ($2.13 billion) included activity in nearly 30 countries. Finland, Switzerland, Greece, Germany, and Spain accounted for more the 60 percent of the total. Finland and the United Kingdom dominated credit transfers ($872 million). Technology transfers were a distant third at $239 million. Finland, Malaysia, and the Netherlands dominated these.

EUROPE AND OFFSETS

Overview

As cited earlier, Europe by far demands the most offsets on U.S. military exports. European countries accounted for over two-thirds of all new offset agreements during the 1993-1996 period. Just three European countries, the United Kingdom, the Netherlands, and Switzerland, accounted for 55 percent of all new agreements. And, in the final two years of the period, all of Europe accounted for more than 85 percent of the total.

Why is Europe so dominant in offsets? Part of the answer is that European countries, among them our NATO allies, have long been the major purchasers of the newest and often most expensive weapon systems available from the United States. In addition, Europe has a large overall defense market and requirement for sophisticated weapon systems. Offsets also have a historic basis in this trade, and they seem to have a momentum of their own. Moreover, most European nations demand particularly high levels of offsets relative to the value of the imported weapon system. This is a common practice among more advanced economies. Offsets can make good political sense by redirecting what would otherwise be large international outflows back into the domestic economy. In so doing, they may also promote technology transfer, supplement defense infrastructure, or provide commercial business opportunities. Almost all European (and other) countries have adopted formalized offset policies.

To better understand the motivation behind European offset demands, it is useful to examine the political arena as well as the economics of the European defense industry. In the short run, over capacity in the European defense industry remains a dilemma. Despite reductions in defense expenditures, European public policies have maintained an unsustainable number of defense companies.

While consolidation of the defense sector proceeded quickly in the United States, it proceeded slowly in Europe. Only Britain appears to have downsized its defense industry extensively. However, Britain maintains a formal policy of 100 percent offsets, which they call “industrial participation.” The British policy appears primarily targeted at the United States, the chief source of its military imports. The policy’s implementation reflects an effort to get some of the subcontract business on purchased systems, as well as to balance bilateral defense trade with the United States.

Britain is following the same approach as the United States and many other countries with large defense establishments that view exports of defense goods as a method to maintain defense infrastructure, and take pressure off scarce public expenditures. The persistent U.S. defense surplus with Britain and other countries, and the fact that the United States has the world's singularly largest defense market, therefore, have long been points of contention.

Other European countries are driven by similar considerations, but have not followed Britain's lead in downsizing. In many cases, political considerations stalled mergers. Defense contractors remain under minimal pressure to merge or improve efficiency, either because they are state owned or because government supporters keep business coming their way. In addition, job retention is a bigger issue in Europe than in the United States, and often receives government support or protection beyond its economic justification. National sovereignty issues and pride have also inhibited cross-border cooperation.

These basic circumstances compel the Europeans to continue the practice of offsets in negotiating major weapon agreements. It has become increasingly difficult for U.S. companies to sell to the Europeans without some form of counter compensation. European governments have pressured each other in the past several years to purchase defense equipment from European companies before considering American or other options. Even countries that do not have large industrial bases are encouraged to purchase European defense equipment for the economic good of the European Union.

In brief, the justification for offset demands by European nations can be condensed into five basic arguments:

1. the traditional national security argument;
2. maintenance of domestic defense industrial infrastructure;
3. redirection of large public disbursements for imported weapons back into domestic economy;
4. an American trade surplus in defense trade; and
5. lack of international agreements governing defense trade.

These arguments will be discussed in more detail in the sub-sections that follow. On close examination, they are not entirely persuasive. In the final analysis, offsets in defense trade are permissible under international trade rules, and therefore, they occur.

The National Security Argument

Do offsets promote national security? If offsets promote national security, why do nations vary so much in their offset demands and percentage requirements? Why do some nations, including several with major external threats at their borders, require few offsets? Also, why do thresholds at which offsets kick in vary from less than $1 million to over $50 million for different nations? Europe's security is linked to the NATO alliance. How can offsets, which raise the price tag of weaponry, create redundancies and inefficiencies, and distort trade, contribute to this alliance?

A pillar of national security in today's world is deterrence. Advanced weapon systems, which provide a technology edge over potential enemies, contribute to this deterrence regardless of the weapon's origin. Nations that purchase American weapon systems obviously do so for the national security benefit, not to book more offsets. Moreover, it is almost always cheaper for most nations to import these systems than to develop and produce them domestically. Coproduction agreements have repeatedly demonstrated this fact.

Also, few nations can afford the cost or have the capability of maintaining a technological edge over their potential adversaries for a protracted period. This, along with other considerations, promotes collective security among friendly nations. It also promotes defense trade between allies in advanced weapon systems as a cheaper alternative to doing everything domestically. Offsets are clearly not needed to achieve this security, although in the eyes of the purchaser offsets may make the import more attractive.

A case can also be made that offsets marginally reduce national security by misallocating economic resources of both trading partners. This effectively lowers each nation's total purchasing power, although these effects are not easily traceable and may be diluted across many industrial sectors.

Maintenance of Defense Infrastructure

How important is defense infrastructure, and should every country have one? The ability to both produce and field advanced weapon systems has undeniable strategic advantages, but it is impractical for every nation to have this capability. Geopolitical circumstances impose practical limits on the size and cost of a nation's potential defense infrastructure. The United States is especially well endowed in this respect, with abundant natural resources, a skilled workforce, technically advanced manufacturing base, and the world's largest economy. As a result, American allies have benefited from the strength of the large U.S. defense infrastructure.

Offsets were originally used to help arm allies and bolster their war-ravaged economies in the early years of the Cold War. This work was accomplished long ago. Offsets are no longer needed for this purpose. It can be argued that today direct offsets may contribute to the recipient nation's defense infrastructure where they are applied, but diminish that of the donor nation. However, by increasing costs to both nations, it can also be argued, perhaps even more vehemently, that offsets stretch already lean defense budgets and actually reduce defense infrastructure in both nations.

When an expensive weapon system is imported as opposed to produced domestically, unless the offsets are 100 percent cooproduction, what is the net gain to the defense infrastructure? The purchasing nation will remain partly dependent on the United States for whatever was not offset. Additionally, subcontractor production in the offseting nation is not only more expensive, but may have little real relationship to the core expertise of that nation and force scarce public funds away from more worthwhile projects. Moreover, once the specific production is finished, then what? In the longer run the infrastructure is dependent on domestic spending. Will this kind of business be worth sustaining?

The primary sustainer of a nation's defense infrastructure is its national defense budget. Military trade, which is financed out of national defense budgets, is currently less than 4 percent of world defense spending. Military trade could be much higher if cooperation between nations were higher. As it is, trade contributes proportionately little quantitatively to defense infrastructure, although strategically it may contribute very significantly. Offsets, which generally range between 50 and 60 percent of this trade, may make an additive but much smaller contribution to the infrastructure. Moreover, in consideration that most offsets are not defense-related (indirect offsets), the possible contribution sinks to an even more modest level.

In the last decade, global defense trade actually contracted almost twice as fast as global defense spending. When global defense expenditures were at their zenith in 1987 ($1.36 trillion in 1995 dollars), defense trade was estimated at only $84.4 billion, or 6.1 percent. By 1995, global defense expenditures had retrenched 36.4 percent to $864.5 billion; however, global defense trade was down 62.2 percent to just $31.9 billion, or 3.7 percent of spending. With such small beginning and ending percentages, defense trade (i.e., imports) is apparently far less desirable than domestic defense spending.

Redirecting Public Disbursements to Domestic Economy

Do offsets have net benefits to the offsetting nation? Offsets force spending in the home country, which is generally the first preference of national governments. This alone may be the primary motive to engage in offsets, since the other justifications are of questionable value. The offset spending may take the form of investment, training, subcontracting, or any of the other forms offsets take. Technology transfer often has commercial spin-offs and unforeseen future payoffs, or multiplier effects.

Economic benefits to the offsetting nation can include increased employment, improved skills, educational benefits, investment in productivity enhancing equipment, and new exporting opportunities. Offsets may also strengthen or help preserve the offsetting nation's defense industrial base, if that is the intention. Additionally, if exchange rate concerns are at issue, offsets may be structured to placate these concerns.

Political considerations also play a prominent role. Offsets help avoid the stigma of spending taxpayers' money abroad. Also, offsets can be used to prop up financially troubled defense firms, or targeted industries, or even public works projects.

The answer to "Do offsets have net benefits?" is, sometimes. Are *benefits* maximized for the price paid for them? It is necessary to know if the benefits of the offsets exceed the benefits the foreign government could have received by spending the money (i.e., cost of the offsets) elsewhere, such as reducing taxes. First, technology transfer, training, and other offsets with multipliers probably render more benefits than offsets without multipliers. The multiplier type offsets would have a net benefit if they were not already available in the offsetting nation. Second, offsets used to prop up domestic subcontractors are equivalent to subsidies. The gains in employment are negated by losses in efficiency. Also, the apparent gain in employment is actually a washout because of employment losses from reduced spending elsewhere. There probably is no net benefit, and, in fact, there may actually be losses to the economy. Third, countertrade is probably beneficial to the offsetting nation simple by financing and expediting the brokering between buyers and sellers. This will probably lead to some long-term relationships and perhaps increased future exports, a benefit. A problem arises, however, when sellers are not competitive and must either take a loss on the sale or be subsidized.

American Defense Trade Surplus

The American surplus in defense trade is one of the rationales European nations use to demand offsets. Several considerations make this a weak argument. First, in 1996, the E.U. ran a surplus in merchandise trade with the United States of $15.2 billion. (This same deficit grew to $16.7 billion in 1997.) This would have been about $2 billion more if defense trade were balanced. Also, from 1983 to 1996, the E.U. has ran a surplus with the United States 11 of 14 years, including each year since 1993. European countries with whom U.S. firms entered into offset agreements from 1993-1996 had a combined four-year surplus of $46.2 billion. This would grow by about $8-9 billion if defense trade were balanced.

Table 7. U.S. Merchandise Trade, 1993 to 1996

European Countries With New Offset Agreements (1993-1996)

	U.S. Exports (in millions)					U.S. Imports (in millions)					
				4YR						4 YR	
Country	**1993**	**1994**	**1995**	**1996**	**Total**	**1993**	**1994**	**1995**	**1996**	**Total**	**Balance**
Germany	18, 932	19,229	22,394	23,495	84,050	28,562	31,744	36,844	38,945	136,095	-52,045
United Kingdom	26,438	26,900	28,857	30,963	113,158	21,730	25,058	26,930	28,979	102,697	10,461
France	13,267	13,619	14,245	14,456	55,587	15,279	16,699	17,209	18,646	67,833	-12,246
Italy	6,464	7,183	8,862	8,797	31,306	13,216	14,802	16,348	18,325	62,691	-31,385
Switzerland	6,806	5,624	6,227	8,373	27,030	5,973	6,373	7,594	7,793	27,733	-703
Belgium (plus Lux.)	9,439	11,168	12,840	12,774	46,221	5,402	6,642	6,288	6,980	25,312	20,909
Netherlands	12,839	13,582	16,558	16,663	59,642	5,4443	6,007	6,405	6,583	24,438	35,204
Sweden	2,354	2,518	3,080	3,431	11,383	4,534	5,041	6,256	7,153	22,984	-11,601
Spain	4,168	4,622	5,526	5,500	19,816	2,992	3,555	3,880	4,280	14,707	5,109
Norway	1,212	1,267	1,293	1,559	5,331	1,958	2,353	3,087	3,993	11,391	-6,060
Finland	848	1,068	1,250	2,439	5,605	1,608	1,801	2,270	2,389	8,068	-2,463
Denmark	1,092	1,215	1,518	1,731	5,556	1,664	2,122	1,945	2,142	7,873	-2,317
Austria	1,326	1,372	2,017	20,101	6,725	1,411	1,750	1,963	2,200	7,324	-599
Portugal	727	1,054	898	961	3,640	785	899	1,057	1,017	3,758	-118
Greece	880	829	1,519	825	4,053	348	455	397	506	1,706	2,347
Slovenia	92	96	110	131	429	229	266	289	289	1,073	-644
Sub-Total	**106,884**	**111,346**	**127,194**	**134,108**	**479,532**	**111,134**	**125,567**	**138,762**	**150,220**	**525,683**	**46,151**
Percent of World	**23.0%**	**21.7%**	**21.8%**	**21.5%**	**21.9%**	**19.1%**	**18.9%**	**18.7%**	**18.9%**	**18.9%**	**7.8%**

Source: U.S. Department of Commerce, International Trade Admin., *U.S. Foreign Trade Highlights*, 1996

A review of 16 European countries that entered into offset agreements with U.S. companies during the BXA reporting period, shows the United States had a four-year accumulated deficit of $46.2 billion with these countries during the 1993-1996 period. The United States had deficits with 11 of these countries and surpluses with five. Table 7 presents a list of these countries with merchandise trade balances.

The largest merchandise trade deficits were with Germany, followed by Italy, France, and Sweden. the total four-year deficit with these countries was $107.3 billion. These four nations accounted for $638 million (6.3 percent of European total) of the new offset agreements and $646 million of the offset transactions (10.6 percent of European total).

The largest merchandise trade surpluses were with the Netherlands, followed by Belgium, the United Kingdom, and Spain. The total four-year surplus with these countries was $71.7 billion. These four nations accounted for. $6.9 billion of new offset agreements (69 percent of the European total) and $2.1 billion of the offset transactions (34 percent of European total).

Second, sectoral trade, of which defense trade is one example, is rarely balanced, and to a degree reflects the strengths and specialization differences among nations. To balance sector trade by government mandate would nullify the gains from trade, and actually reduce potential Gross Domestic Products (GDPs) of both trading partners. Most sectors contain a diverse range of products so that a two-way trade may occur within sectors. Also, government inputs influence trade; these include R&D, infrastructure, subsidies, tariffs and other forms of protection, and the legal environment. With that said, in 1996, the United States had surpluses in selected sectors with the EC in:

Office Equipment, including Computers:	$ 9.8 billion ($15 - 5.2 billion)
Aircraft and Parts:	$5.2 billion ($12.7 - 7.5 billion)
Medical Instruments and Supplies:	$2.5 billion ($4.9 - 2.4 billion)

And, Europe had surpluses in selected sectors in selected sectors in:

Motor Vehicles:	$10.6 billion ($5.4 - 16 billion)
Steel Mill Products:	$4.2 billion ($0.4 - 4.6 billion)
Pharmaceuticals:	$3.0 billion ($4.5 - 7.5 billion)

Source: U.S. Department of Commerce, International Trade Admin., *U.S. Foreign Trade Highlights*, 1996

Third, military trade occurs for various reasons, such as special alliances, contiguous borders, regional instability, or foreign dependence, but a primary reason is the strategic value of the weapons traded. Only a few nations produce advanced weapon systems, and these nations tend to have military trade surpluses. Just about all other countries have military trade deficits. Notable surplus nations include the United States, France, the United Kingdom, and Germany.

U.S. military research and development expenditures are three times that of all European nations combined. This indicates the United States heads the list of countries likely to be counted among surplus nations. Also, of the surplus nations, only the United States is truly capable of meeting virtually all defense requirements domestically. So, in addition to heading the surplus category, the United States also heads the list of countries least dependent on imports.

As cited previously, when defense budgets fell, defense trade fell even faster. Russia registered the greatest defense trade declines, from more than half the world's total to only a small fraction today. At the same time, the combined defense exports of the United States and Europe also declined somewhat in value, but grew from less than half the world total to over 80 percent currently. Imports into these two regions also declined, lessening the impact on the levels of defense trade surpluses.

Almost 80 percent of the U.S. military trade surplus with the world comes from countries outside of Europe. Over the years, the U.S. surplus with the rest of the world (excluding Europe) averages about three times the value of Europe's surplus with the world (excluding the United States). This indicates the United States has a competitive edge over Europe in third-country competitions.

Fourth, direct and defense-related indirect offsets themselves cancel out much of the U.S. defense surplus with Europe, particularly with countries such as the United Kingdom and the Netherlands, which demand 100 percent offsets on big ticket items. For example, from 1993-1995, the defense trade surplus with Europe was $7.1 billion. (Three years are used instead of four because the final trade figures for 1996 are not available.) New offset agreements during the same period totaled $8.3 billion, and offset transactions were $4.3 billion. About one-third of the offset transactions were direct; however, about two-thirds were aerospace products, a large percentage of which were probably defense-related.

Table 8 presents European and U.S. military trade from 1987 to 1996. The United States and Western European nations export roughly the same amount of military items and have overall trade surpluses' with the rest of the world. About 30 percent of Europe's exports (and imports) are intra-European. However, this would not change Europe's external defense surplus since both exports and imports would be debited the same amount. The United States had a surplus with Europe each year, although the trend in both the magnitude of the trade and the surplus is downward. U.S. imports from the world are not shown on the table, but estimates were made by the U.S. Arms Control and Disarmament Agency to be roughly twice the value shown as the United States imported from Europe.

The Netherlands and the United Kingdom purchased major U.S. weapons systems over the last five years even when European options were available. France has purchased major U.S. defense weapons systems only when no French or European option was available. The French defense procurement policy has been to buy equipment from French sources first, then to pursue European cooperative solutions, and lastly to import a non-European item. This reflects a desire to retain a defense industrial base and maintain autonomy in national security matters.

Table 8. Arms Trade Between United States and Western Europe, 1987-1995
(in constant 1995 dollars - millions)

Year	U.S. Exports to World	U.S. Exports To Europe	U.S. Imports Fm Europe	U.S. Trade Surplus Europe	U.S. Trade Surplus World	European Trade with World Exports	European Trade with World Imports	European Trade with World Surplus
1987	22,650	5,000	1,424	3,576	19,802	21,188	15,142	6,046
1988	17,480	5,000	1,748	3,252	13,984	20,515	15,946	4,569
1989	19,050	7,000	1,019	5,982	17,012	21,042	15,519	5,523
1990	16,320	5,000	1,035	3,966	14,250	21,414	13,613	7,801
1991	15,910	4,000	1,050	2,950	13,810	15,032	13,007	2,025
1992	14,200	2,800	861	1,940	12,478	14,332	10,600	3,732
1993	15,940	2,900	734	2,166	14,472	11,554	9,753	1,801
1994	13,800	2,900	564	2,336	12,672	11,778	9,311	2,467
1995	15,600	3,100	500	2,600	14,600	14,091	8,635	5,456
1996	17,000	-	-	-	-	-16,391	8,500	7,891

Source: International Institute for Strategic Studies, London, *The Military Balance*, 1997/1998

Germany and Italy have made limited purchases of U.S. defense equipment in recent years because of significantly reduced defense procurement budgets and commitments to European cooperative projects. Both countries have now adopted an open defense procurement policy and competitively buy a mixture of American and European products, albeit with offset demands.

Of the major European defense system exporters, the British global market share has increased since the 1991 Gulf War due primarily to arms purchases by several Gulf States. Arms deliveries by France and Germany have decreased from past levels.

Undercount of Defense Trade Numbers

It should be noted that worldwide defense trade numbers are understated due to an undercount of traded military components and services and other items. These include metal parts and components, electronic components, instrumentation, chemicals, technical data, repair services, and a host of other items that are typically counted as commercial products in the official trade statistics, but used for military purposes. It is difficult to even estimate these. The U.S. State Department issues export licenses for items on the Munitions List for about $25 billion a year. However, these licenses are valid for four years, and not all that is licensed is exported. A similar undercount undoubtedly applies to U.S. military imports. The undercount problem almost certainly applies to the statistical collections of other countries.

With these caveats, the latest available military trade statistics (1996) are published in *The Military Balance*, 1997-1998, an annual compilation by the International Institute for Strategic Studies (IISS) in London. The IISS data is gathered from all over the world; one source is the Arms Control and Disarmament Agency (ACDA) at the U.S. State Department. ACDA, which publishes world defense trade numbers also, is making an effort to improve accountability of the Munitions List licenses, which the Agency reports could increase the U.S. military export numbers significantly. At the time of this writing, however, a reliable method for tabulating or estimating these numbers had not been adopted. The U.S. export numbers reported in *The Military Balance* are primarily Foreign Military Sales deliveries reported by the U.S. Defense Security Assistance [Cooperation] Agency. This is a separate publication, which is also provided to ACDA

Defense Trade Exemption from International Controls

Under the World Trade Organization (WTO), defense trade, including offsets, is one of the last bastions of legitimate government market intervention. The practice of offsets in defense trade is currently exempt under Article XXIII of the WTO from rules governing commercial trade.

However, it is recognized that offsets result in trade distortions and inefficiencies under the economic principles on which WTO policies are based. Under Article XVI the WTO prohibits the practice of offsets in government procurement of commercial items. Thus, if governments choose to exercise the military exemption, in principle they are also willing to live with any trade distortions and added costs associated with that option.

Contrasts in the U.S. and European Defense Industrial Bases

European defense expenditures are about two-thirds those of the United States. However, Europe has two to three times more suppliers. For example, the United States has three major suppliers in the military aircraft sector, while six European nations each have at least one major supplier.

In terms of defense revenue, U.S. companies tend to outpace their European counterparts. In 1997, the United States had seven of the world's top 10 defense firms (up from six in 1996), while Europe had the remaining three. The top 10 are shown in Table 9 with defense and total revenues. The seven U.S. firms represent about three-fourths of both the defense and total revenues of the 10 firms shown.

Defense Budgets

European countries' defense budgets in 1996 totaled $173 billion; this was about 65 percent of the U.S. total of $266 billion. France led European nations in defense spending at $47 billion. Germany was second at $39.2 billion and the United Kingdom third at $33.5 billion and Italy was fourth at $23.8 billion. These four countries represented about 71 percent of the European total in 1996.

Total 1996 procurement expenditures in Europe were $39.6 billion and research and development spending was $12.3 billion. This compares with U.S. procurement of $42.4 billion and $35 billion in R&D spending. The European total of $52 billion was about 30 percent of total

European defense spending. The U.S. combined total of procurement and R&D was slightly less, at about 29 percent of the total U.S. defense budget. The most significant difference between Europe and the United States is relative expenditures on R&D.

TABLE 9. Top Ten World Defense Companies (in $millions)

Top Ten World Defense Companies	1997 Defense Revenue	1997 Total/Revenue
1. Lockheed Martin Corporation (U.S.)	18,500.0	28,000.0
2. Boeing Company (U.S.)	13,775.0	45,800.0
3. British Aerospace plc (U.K.)	10,091.0	13,673.0
4. Northrop Grumman Corporation (U.S.)	8,200.0	9,200.0
5. Raytheon Co. (U.S.)	6,270.0	13,700.0
6. General Electric Company (GEC) plc (U.K.)	5,773.6	18,388.1
7. Thompson Group (France)	4,184.1	6,422.9
8. TRW Inc. (U.S.)	3,800.0	10,800.0
9. General Dynamics Corp. (U.S.)	3,650.0	4,062.0
10. United Technologies Corp. (U.S.)	3,311.0	24,713.0
Total	**77,554.7**	**174,759.0**

Overall, European nations have decreased their defense research and development spending over the last three years, at about one-third of the relatively stable U.S. research and development funding.

Table 10. Comparative GDPs and Defense Expenditures, 1996 (Billion Dollars)

	United States	Western Europe	Top 4 Western Europe	France	Germany	United Kingdom	Italy
GDP	7,600	8,650	6,000	1,500	2,200	1,200	1,100
Defense Expenditures	266.0	173.3	143.2	47.2	39.2	33.5	23.8
Military Exports	17.0	16.4	15.3	5.6	0.7	8.8	0.2
% Def. of GDP	3.5%	2.0%	2.3%	3.1%	1.8%	2.8%	2.2%
% of GDP in 1987	6.1%			3.9%	3.1%	4.6%	3.6%

Source: International Institute for Strategic Studies

Chart 8. Defense Procurement U.S. vs. Europe

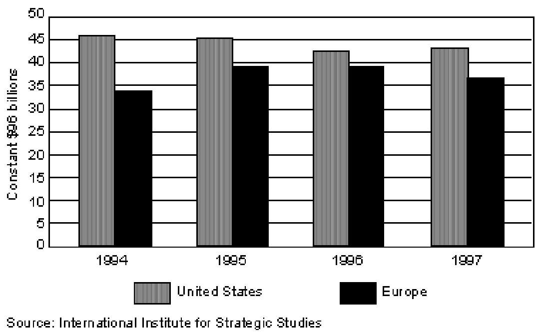
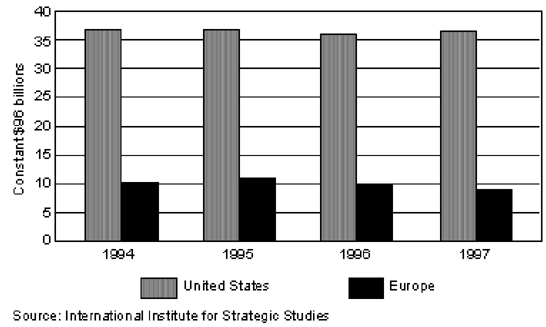


Chart 9. Defense R&D: U.S. vs. Europe



Spending cuts by European member-states, especially those announced by France and Germany, are evidence that their current priority is to meet the single currency (the Euro) economic targets criteria at the expense of defense programs.

The United States is able to source virtually all its military needs from domestic industry, with defense imports typically accounting for 2 or 3 percent of defense expenditures. Most U.S. defense imports are subsystems and components rather than entire weapon systems, and are supplied largely by the United Kingdom. As stated previously, the United Kingdom is consistently the largest buyer of U.S. equipment in Europe. France and Sweden have attempted to pursue a policy of almost exclusive procurement from indigenous sources, but are often dependent on foreign subcontractors for certain components.

Europe’s defense industry is badly splintered among small national markets, with far too much duplication of a limited research and development effort. Because of this, the European defense producers are faced with trying to market less up-to-date weaponry at higher prices than are available from their U.S. counterparts.

Escalating weapon systems costs also continue to be a dominant feature of NATO alliance equipment programs. In 1996, NATO Europe member states spent just over $158 billion on defense, slightly down from 1995 levels, and accounted for around 40 percent of NATO’s spending overall. The U.S. share is some 58 percent. NATO Europe defense spending fell about 9 percent in real terms in 1997, to about $145 billion. Budgetary constraints limit the ability of European defense companies to exploit new technologies, which could enhance capabilities. This will undoubtedly have adverse effects on their competitiveness in the long term.

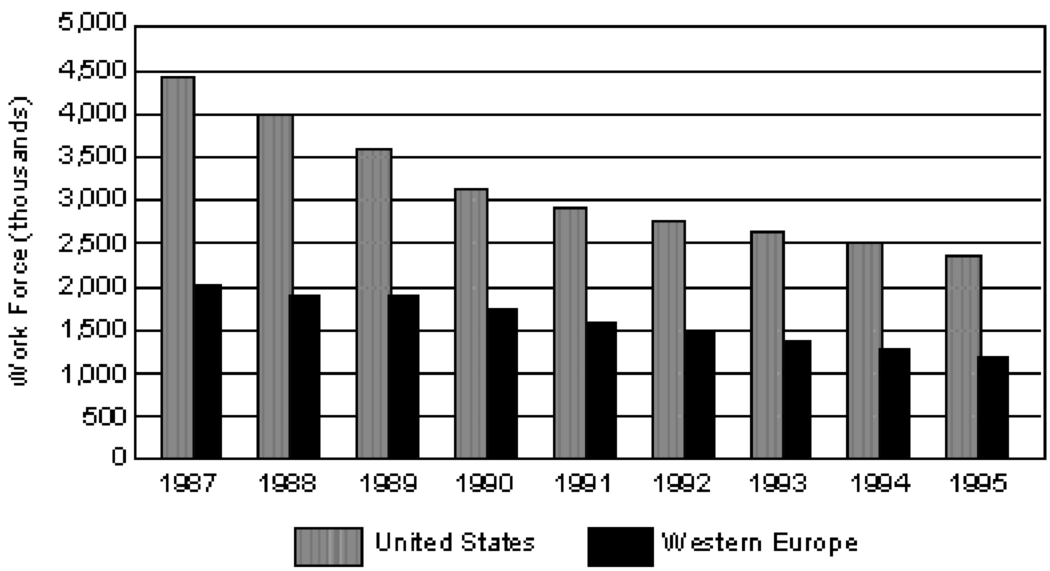
While the United States has two major aircraft procurement programs under way, Europe has three: the Eurofighter, the Saabknade Gripen, and the Dassault Rafael. Europe also has four tank programs, compared with one U.S. program, and eleven missile makers, while the United States has only four. These and other defense programs in Europe share total defense spending of about $130 billion.

The entire cost of the French Rafael will be undertaken by Dassault, but it is highly likely that it will end up a collaborative effort with Aerospatiale and perhaps other aerospace companies outside of France. The JAS 39 Gripen, undertaken by Saab of Sweden, is actually a joint venture with British Aerospace (BA). BA manufactures the wing assemblies and other items. Gripen fighters manufactured for export will be produced with a 50/50 share of revenue and profit with BA. The Gripen uses a derivative of a General Electric designed engine, the F404.

Defense Industry Employment

Defense employment in the United States and Western Europe has dropped significantly along with the declines in national defense budgets. During the nine year period from 1987 to 1995, the U.S. workforce fell 47 percent, from 4.4 to 2.35 million, displacing more than 2 million workers. Europe also experienced a workforce decline, although to a lesser degree. In the same time span, the European workforce fell from 2 to 1.2 million, a drop of 40 percent. The percentage of labor reductions for the top three European nations was uneven. The United Kingdom's defense industrial workforce fell 44 percent, while Germany's workforce fell by 30 percent, and France experienced a 29 percent decline.

Chart 10. Trends in Defense Industrial Employment
U.S. and Europe, 1987-1995



Source: International Institute for Strategic Studies

A paper titled *The Effects of Offsets, Outsourcing and Foreign Competition on Output and Employment in the U.S. Aerospace Industry,* was submitted by Robert E. Scott of the Economic Policy Institute to the National Research Council's Symposium on *Trends and Challenges in Aerospace Offsets* in January, 1998. The paper presented employment trends and analysis in the North American, European and Japanese aerospace industries. Dr. Scott showed that the United States experienced a much larger percentage and numerical drop in aerospace employment between 1989 and 1995 than did the rest of world. The data combined military and civilian aerospace jobs. U.S. employment fell from 992,000 to 580,000, while that of the E.U. fell from 485,740 to 348,061. In percentage terms the U.S. drop was 41.5 percent, compared with 28.3

percent for the E.U. The United Kingdom fell from 189,911 to 110,549, a 58 percent decline. In actual numbers, the U.S. fell 412,000 in contrast to the (E.U. which loss fewer than 138,000 jobs, only one third the American total. At least 333,000 (81 percent) of the U.S. decline was military-related employment.

Dr. Scott attributed the U.S. decline to a drop in sales (about 65 percent), productivity increases (about 25 percent), and increased imports (about 10 percent).

Table 11. Aerospace Employment Trends in Selected Locations, 1989 and 1995 (in thousands of employees)

Year	U.K	Other E.U.	Total E.U.	Canada	Japan	U.S.	Total
1989	189.9	295.8	485.7	66.1	38.3	992.0	1,582.1
1995	110.5	237.5	348.1	57.3	38.3	580.0	1,023.7
Decline	79.4	58.3	137.6	8.8	0	412.0	558.4
% Decline	-58.2%	-19.7%	-28.3%	-13.3%	0.0%	-41.5%	-35.3%
% of Total Decline	14.2%	10.4%	24.6%	1.8%	0.0%	73.8%	-

Source: *The Effects of Offsets, Outsourcing and Foreign Competition on Output and Employment in the U.S.* Aerospace Industry, Robert Scott, Economic Policy Institute, January 1998.

The Maastricht Treaty

The incentive to restructure in Europe goes beyond the military. The entry into force of the Maastricht Treaty on November 1, 1993, marked the beginning of a new stage in which the European Union (E.U.) is carrying forward its economic and monetary integration as well as the establishment of a common foreign and security policy. The most contentious aspect of the Treaty was its call for the implementation of a single European currency, the Euro, by January 1, 1999.

All E.U. members were faced with strict adherence to the Maastricht Treaty's convergence criteria of keeping:

1. national budget deficits below 3 percent (of GDP);

2. a government debt of no more than 60 percent of GDP;

3. an inflation rate within 1.5 percentage points of the three E.U. members with the lowest inflation.

To meet this goal, Germany, for instance, instituted an austerity plan to reduce its national budget deficit. This resulted in a sharp rise in German unemployment by the beginning of 1997, after sluggish growth (1.4 percent) in 1996. With higher unemployment and pressure from labor unions, public spending in Germany increased, placing the 3 percent goal in jeopardy. However, growth increased to 2.2 percent for the year in 1997 and the goal was reached.

The Europeans hope to phase in monetary union over a three-year period beginning in 1999 With average E.U. economic growth for 1996 at only 1.7 percent, reducing unemployment proved extremely difficult. While structural problems lay at the heart of the high unemployment, efforts to achieve the Maastricht criteria prevented public spending from stimulating demand.

The problem of meeting the Treaty terms was eased somewhat in 1997, when E.U. wide growth increased to 2.6 percent. In early May 1998, 11 E.U. members, meeting the criteria, signed on to the European Monetary Union. Only Greece failed to meet the requirement, but may apply again at a later date. Three other nations, Denmark, Sweden, and Britain, opted out of the monetary union for the time being.

The terms of the Maastricht Treaty have also caused govermnents to redirect resources out of the defense sector. This adds pressure on these governments to depend more on policies such as offsets in international military trade. The problems may also jeopardize ongoing cooperative military programs and/or discourage new ones. For example, the number of Eurofighters on order has fallen, and this circumstance could eventually cause the program to fail.

TRADE POLICIES AND OFFSETS

U.S. Foreign Military Financing Program

Current U.S. policy permits foreign governinents to demand offsets on U.S. military export sales financed, or partly financed through the Foreign Military Financing Program (FMFP), which is primarily a loan program. The FMFP features lenient repayment terms to begin with, and Congress usually waives the loan, so it becomes a direct grant. During the four-year period FY1993 to FY1996, $15.6 billion was funneled through this program. The U.S. program is unique in that no other arms supplier provides a combination of grant aid and offsets. The policy should be changed to limit or eliminate offsets as a condition of receiving FMFP funding.

The primary recipients of this aid have been Turkey, Greece, Egypt, and Israel. Since 1987, Israel and Egypt have received FMFP direct grants (repayment waived) valued at $1.8 and $1.3 billion each year. Additionally, since 1991, Israel was authorized to spend $475 million of the $1.8, billion for procurement within Israel. Prior to 1993, Turkey and Greece received both FMFP grants and loans. From FY1993 to FY1996 Turkey received about $1.5 billion in direct loans from DoD on liberal terms. Greece received over $1 billion in direct DoD loans.

All four nations have obtained offsets for FMFP sales of U.S. weapons. A 1994 General Accounting Office study reported these countries demanded $4.7 billion in offsets in preceding years. The study found that these FMFP recipients developed their own industrial bases and other aspects of their economies through these offset requirements at U.S. taxpayer expense. Stronger prohibitions on offsets in these sales might reduce these subsidies to foreign governments in association with military exports.

Agreement on Government Procurement

The Agreement on Government Procurement opens markets and strengthens competitive bidding practices to governments. The underlying principle is that signatory governments must treat products and services no less favorably than they treat their own domestic products, services, and suppliers. Criteria for making a contract award are the lowest price or the economically most advantageous tender based on various factors, such as quality, technical merit, delivery costs, and price.

Article XVI of the World Trade Organization (WTO) Agreement on Govermnent Procurement prohibits offsets in reference to non-military items. Government entities covered by the Agreement "shall not, in the qualification and selection of suppliers, products or services, or in the evaluation of tenders and award of contracts, impose, seek or consider offsets." Countries may exempt certain types of procurement from coverage by the Agreement at the time they become signatories.

Article XVI

> *1. Entities shall not, in the qualification and selection of suppliers, products or services, or in the evaluation of tenders and award of contracts, impose, seek or consider offsets.*
>
> *2. Nevertheless, having regard to general policy considerations, including those relating to development, a developing country may at the time of accession negotiate conditions for the use of offsets, such as requirements for the incorporation of domestic content. Such requirements shall be used only for qualification to participate in the procurement process and not as criteria for awarding contracts. Conditions shall be objective, clearly defined and non-discriminatory. They shall be set forth in the country's Appendix I and may include precise limitations on the imposition of offsets in any contract subject to this Agreement. The existence of such conditions shall be notified to the Committee and included in the notice of intended procurement and other documentation.*

Developing countries may negotiate, at the time of their accession, conditions for the use of offsets provided these are used only for the qualification to participate in the procurement process and not as criteria for awarding contracts. Signatories agreed that the granting of an offset or the requirement that technology be licensed as a condition for the award of a contract, although not forbidden outright, would be used only in a limited and nondiscriminatory manner.

Major defense agencies are entities generally covered under the Agreement. Government purchases related to the protection of national security interests, however, are excluded under Article XXIII. Therefore, the prohibitions against the use of offsets would not apply under such contracts. This clearly allows foreign governments to take exception to the agreement to protect national security interests:

Article XXIII
Exceptions to the Agreement

1. Nothing in this Agreement shall be construed to prevent any Party from taking any action or not disclosing any information which it considers necessary for the protection of its essential security interests relating to the procurement of arms, ammunition or war materials, or to procurement indispensable for national security or for national defence purposes.

2. Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent any party from imposing or enforcing measures: necessary to protect public morals, order or safety, human, animal or plant life or health or intellectual property or relating to the products or services of handicapped persons, of philanthropic institutions or of prison labour.

This agreement was of interest to developed countries with advanced technological and manufacturing capabilities. At the end of 1997 there were twenty-six signatories: Aruba; Canada; the European Union - Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Spain, Portugal, Sweden, and the United Kingdom; Hong Kong; Israel; Japan; South Korea; Liechtenstein; Norway; Singapore; Switzerland; and the United States. Additionally, Chinese Taipei and Panama are currently negotiating accession to the Agreement.

FINDINGS

- In the four years (1993-1996) new offset agreements totaled $15.1 billion and supported $29.1 billion in export contracts. The offset agreements represented about 52 percent of the export contract values; for the last two years, the average offset was about 80 percent.

- Offset transactions were valued at $9.2 billion and offset credits $10.7 billion over the same time period. About 38 percent of the transactions were direct offsets, 58 percent indirect, and 4 percent unspecified. About 73 percent of the actual value of transactions were subcontracting activity, purchases, or technology transfer.

- Over 90 percent of the new offset agreements and offset transactions referenced exports of U.S. aerospace weapon systems. However, almost half the actual offset transactions were fulfilled with non-aerospace products. More than 90 percent of *direct* offsets were aerospace products, and more than 70 percent of *indirect* offsets were fulfilled with non-aerospace products.

- Nearly 83 percent of the offset transactions were manufactured products. Three-fourths of the offset transactions fell into three major industry groupings:

  1. SIC 37 - Transportation Equipment (48 percent); sub-group SIC 372 - Aircraft and Parts alone accounted for 33 percent;

  2. SIC 36 - Electronic and Electrical Equipment (16 percent); and

  3. SIC 35 - Industrial Machinery (9 percent).

- Thirty-two U.S. defense prime contractors reported entering into new offset agreements during 1993-1996 period. Five of these companies accounted for over 78 percent of the value of new offset agreements and nearly 82 percent of export contract values. Five countries - the United Kingdom, the Netherlands, Switzerland, Saudi Arabia, and Taiwan - accounted for 72 percent of the value new offset agreements.

- From 1993 to 1996, an estimated 30-40 percent of the total value of military export contracts were negotiated with offset agreements. Most military export contracts are below country thresholds for applying offsets, which average about $7.6 million, as well as BXA's minimum data reporting requirement. However, virtually all large aerospace export contracts included offsets.

- The motivation behind offset demands is primarily the desire to redirect public funds back into the foreign purchaser's economy. National security considerations play a diminished role in the offset decision making process in the post-Cold War period.

- Offsets have the effect of increasing the cost of the exported weapon system, which ultimately must be passed on to the foreign purchaser. These increased costs are incurred when shifting parts production to newly established overseas suppliers, and/or fees for transferring technology, or various other administrative expenses. Co-production is the most costly form of offset, as it typically involves the replication of an entire production or assembly facility to produce a limited number of military items.

- The U.S. primes have become more competitive because of consolidation and downsizing. As stronger competitors, U.S. firms have increased their share of a smaller international defense market.

- As a measure to reduce the inefficiencies inherent in offsets, the development of expensive weapon systems could be effectively accomplished through international partnering with allies. This would spread costs and benefits and reduce duplication. It would also provide added incentives to market the weapon systems more widely. The Joint Strike Fighter program, with British, Dutch and Canadian participation, is an excellent example of this type of cooperation.

- The existing World Trade Organization agreements provide an exemption for national governments to demand offsets in military related trade. However, the 1992 U.S.-EU Agreement on Trade in Large Civil Aircraft prohibits offsets in the trade of large civil aircraft. This could be helpful if any consideration is given to a future WTO agreement on military offsets.

- Europe's ability produce state-of-the-art weaponry at a reasonable cost is ultimately contingent upon transnational cooperation and greater integration of the European defense industry. Meeting the economic targets of the Maastricht Treaty has caused European governments to redirect resources out of the defense sector. This adds pressure on these governments to depend more on policies such as offsets to stimulate domestic economies. The continued use of offsets is inhibiting European cooperation and integration.

- The United States spends three times more on military R&D than European nations, contributing to the U.S. lead in sophisticated weapon systems and competitiveness.

- From 1987 to 1995, the U.S. defense workforce fell 47 percent from 4.4 to 2.4 million workers, while the European workforce fell 40 percent from 2 to 1.2 million. This indicates that the U.S. has adapted more quickly to the declining world defense market. Overcapacity in the European defense industry continues to plague the Europeans and pressures them to continue the practice of demanding offsets.

- The U.S. has a positive but declining of defense trade balance with Europe, which has been cited by the European governments as a rationale for high levels of offsets. However, the U.S. has a negative balance in merchandise trade with Europe, which includes both commercial and military trade. The defense surplus has ranged from $2-3 billion since 1993, while the merchandise deficit was $15.2 billion in 1996 alone. (This same deficit grew to $16.7 billion in 1997.) When offsets are included in the calculation, the U.S. defense trade surplus is effectively cut in half.

REENGINEERING THE USAF FMS EFFORT

By

Major James B. Rake, USAF, Politico-Military Affairs Advisor to the Under Secretary of the Air Force

> "The Pentagon needs to update its cumbersome Foreign Military Sales (FMS) system to make it more responsive to the needs of international customers and should work with industry in developing a new process...according to Deputy Defense Secretary John Hamre." [*Defense Daily*, May 6, 1998]

Security Assistance (SA) is a term describing a wide range of programs through which the United States implements its foreign policy. A key element of security assistance involves the use of arms transfers or foreign military sales (FMS). In recent years, the changing world environment has driven us to reevaluate the effectiveness of our FMS system and adapt to a new way of doing business.

FMS has long been a flexible foreign policy tool contributing to the strategic objectives of the U.S. and its allies. While Security Assistance activities have focused on emerging democracies in recent years, procedures for administering FMS programs have been around for decades and operate at no cost to the U.S. Government. The Deputy Under Secretary for International Affairs (SAF/IA) is the focal point in the United States Air Force (USAF) for Security Assistance and FMS. Currently, USAF is administering approximately 4,000 cases or contracts worth an estimated $100 billion, principally with our traditional allies. Since the end of the Cold War, we have witnessed a marked decline in the procurement of major weapon systems and FMS. While much of this decline is attributable to the end of the Cold War and the accompanying change in domestic priorities by many nations, it also reflects the frustration they have experienced in dealing with the bureaucratic barriers of the FMS system. Seeing the handwriting on the wall, the USAF began its reinvention journey almost four years ago to respond to the feedback of our international customers.

With these goals in mind, the Secretary of the Air Force chartered SAF/IA on July 5, 1995, as a Reinvention Laboratory (RL). Soon thereafter, SAF/IA stood up a RL Steering Committee (RLSC). Since its inception, the RLSC has worked to streamline the FMS process by eliminating duplication, reducing costs, and enhancing responsiveness to our customers. The RLSC is chaired by BGen Jeffrey Kohler, Assistant Deputy, Under Secretary of the Air Force, International Affairs, and is made up of senior managers from across the USAF FMS arena. To work their initiatives, the RLSC established four Process Action Teams (PATs): Case Execution, Disclosure, Financial Management, and Organization Relationships.

These PATs have worked various initiatives since 1995. Their work is on-going with each focusing on initiatives in its respective area of expertise. The Case Execution PAT began by identifying barriers which prevented efficient execution of FMS cases resulting in delays in meeting customer requirements. The PAT's initial successes are led by the development of the Worldwide Warehouse Redistribution System (WWRS). This is a web based system used for filling FMS requirements. WWRS matches up buyers and sellers of excess serviceable, fully functioning, spare parts and support equipment via the internet. This website not only saves the USAF manpower dollars, but provides customers access to materials at reduced cost, and reduces lead times for articles through redistribution of assets instead of new procurement. Another initiative of the PAT, which was implemented in March 1999, involves streamlining the case management process through outsourcing much of the case workload and leveraging the expertise of the private sector. The objective is to improve efficiency of case execution from Letter of Offer and Acceptance (LOA) to case closure. Similar significant FMS reform efforts have been undertaken by our Disclosure PAT.

The Disclosure PAT's efforts have been tremendously successful. Two initiatives that have changed the traditional way of doing business include new excess defense article (EDA) notification procedures and disclosure approval authority. Through the PAT's efforts, a change in Congressional notification requirements for EDA was approved. Essentially, this change facilitates the transfer of EDA by eliminating Congressional notification requirements on non-major defense equipment (MDE) if the LOA value falls below $7 million dollars. A change to disclosure procedures has also helped to streamline the process. On disclosure issues that were non-contentious within the USAF, approval authority was changed from CSAF to SAF/IA. Both of these initiatives aided in improving our responsiveness to customer requests by decreasing the time required to staff and coordinate cases. The Disclosure PAT's most recent efforts involve teaming with U.S industry to improve the export licensing process. By working together, these agencies have begun to simplify the USAF required license submissions. Additionally, their effort includes proposals for simplification of the language used in the International Traffic in Arms Regulation (ITAR). Both of these are important steps along the road to improving the export licensing process our international customers must contend with. Another area our RLSC is working hard to improve is the FMS financial management process.

Our Financial Management PAT is identifying inefficiencies in FMS accounting and financial procedures which can be streamlined and improved. These procedures include, among others, recoupment of non-recurring costs, manpower accounting, resource funding, direct fund cite procedures, as well as pricing procedures for price and availability (P&A) and Letters of Offer and Acceptance (LOA) data. In late 1998, a contract was awarded to review all financial management processes across the USAF and their interface with the Defense Financial Accounting Service (DFAS). The objectives of the project are to: 1) map "as is" processes, 2) recommend streamlined and standard processes, 3) identify training needs, and 4) develop a financial management handbook. The scope of this effort is comprehensive with the goal of overhauling and updating the FMS financial management system to ensure it is significantly more responsive to our international customers. SAF/IA, HQ DFAS, and DFAS-DE/I are working together to make this project a success. Another initiative undertaken by the Financial PAT is a review of Air Force Non-Recurring Cost Recoupment process. In December 1998 a tiger team examined these procedures and drafted revised procedures early this year.

Our final PAT, the Organizational-Relationship PAT, began by undertaking a review of security assistance relationships throughout the USAF FMS arena. They identified areas of overlapping responsibilities and duplication of effort among the various SA agencies which prevented effective utilization of manpower and resources. Upon completion of their assessment, the PAT recommended a closer SA inter-agency evaluation be undertaken to provide recommendations for more efficient management and streamlining of Air Force FMS processes. In September 1998, an independent contractor was hired to conduct such a study. At the conclusion of their assessment, the agency recommended, among other things, a restructuring of the organizational relationships among SAF/IA, Air Force Security Assistance Command (AFSAC), and the Air Force Security Assistance Training Command (AFSAT), organizational relationship structure. To ensure SAF/IA's oversight of all USAF security assistance activities, AFSAC and AFSAT, whose operational chains of command extended from AFMC and AETC respectively, should become direct reporting units of SAF/IA. This clear line of directive authority to both agencies provides SAF/IA not only tasking authority over these SA agencies, but should eliminate duplication of effort and enhance responsiveness to FMS customers. In February of this year, the recommendation for organizational realignment of these three agencies was embraced by the RLSC.

Another issue examined by this PAT is the FMS training provided our SA personnel. First, the team is conducting a field survey of USAF SA agencies to determine the level of training of personnel. They've also met with SAF/AQ personnel and examined the web based training effectively utilized by the Acquisition community. Additional discussions on the appropriate training for FMS personnel included inter-service meetings with the Navy's International Program Office (IPO) and the Defense Security Assistance and Cooperation Agency (DSCA). As a result, a comprehensive DoD effort is underway to improve and ensure training for FMS personnel.

In responding to Dr. Hamre's call last May to reform our FMS practices and procedures, the USAF is working hard to improve its FMS efforts. Our Reinvention Lab has focused their efforts in four areas, Case Execution, Disclosure, Financial Management, and Organizational Relationships. While we are encouraged by the progress our PATs have made in these areas so far, we realize there is much more yet to be done. As Henry Kissinger once said, "each success only buys an admission ticket to a more difficult problem."

About the Author

Major James B. Rake, is a Politico-Military Affairs Advisor to the Under Secretary of the Air force, International Affairs (SAF/IA). He is the Administrator of SAF/IA’s reinvention Laboratory. He holds a BA degree in International Realtions from the University of South Carolina, and a Masters Degree in Political science from Auburn which he completed while attending the Air Command and Staff College at Maxwell Air Force Base, AL. Prior to attending ACSC, Major Rake was Chief, Special Program Branch, and Flight Commander, at Squadron Officer School, Maxwell AFB, AL.

Drawdowns: A Policy Tool

By

LTC Russell B. Crumrine, USA

Introduction

Section 506(a)(1) of the Foreign Assistance Act (FAA) of 1961, as amended (22 U.S.C. § 2318), provides the President the authority to direct the drawdown of defense articles and services, including military education and training, from existing assets of the Department of Defense (DoD) in order to respond to unforeseen military and humanitarian emergencies and disasters. The FAA, Section 506(a)(2)(A) authorizes the President to direct drawdowns from the inventory and resources of any agency of the U.S. Government (USG) in some non-emergency situations when judged to be in the U.S. national interest. For example, drawdowns are authorized to support counternarcotics activities, refugee assistance and cooperative efforts regarding MIAs from the Vietnam War. Congress may also pass legislation authorizing a drawdown for a specific reason or purpose, such as support for United Nations war crimes tribunal or peacekeeping operations. Drawdowns can therefore be viewed as tools to support U.S. foreign policy objectives in both emergency and non-emergency situations. This article reviews the various legislative authorities for drawdowns for FY99 and will review, from a DoD perspective, the FY98 drawdown to support counternarcotics activities as a procedural case study.

FY 99 Drawdown Authorities

Section 506, Foreign Assistance Act (FAA) - "Drawdown Special Authority"

As codified in 22 U.S.C. § 2318, section 506 of the FAA provides "Special Authority" for the drawdown of U.S. government (USG) material and providing services and training to foreign countries and international organizations. Execution under Sec 506, FAA, requires the President to inform Congress of the circumstances which require the provision of USG assistance. There are four sub-sections under Sec 506.

Sec 506 (a)(1), FAA authorizes provision of defense articles and services to a foreign country or international organization when the President provides Congress a Presidential Determination and reports to Congress:

- That an unforeseen emergency situation exists
- That the situation requires immediate military assistance
- That providing the required assistance cannot be met under the Arms Export Control Act (AECA) or any other law except this section

Assistance under Sec 506(a)(1) is provided by drawing down defense articles, services and training from existing DoD stocks. The aggregate value of military assistance provided under Sec 506(a)(1) may not exceed $100M in any fiscal year.

Section 506 (a)(2), FAA authorizes USG assistance to a foreign country or international organization in a number of non-emergency situations. The President must provide Congress a Presidential Determination and report to Congress that it is in the national interest of the U.S. to draw down goods and services from any USG agency, not just DoD, for:

- International narcotics control assistance (counternarcotics)
- Natural disaster relief assistance

- Refugees and migration assistance

- Locating and repatriating U.S. military members and USG civilians who remain unaccounted for from the Vietnam War

Assistance under Sec 506(a)(2) may be provided by any USG agency. The total cost of all USG assistance provided under this section in any fiscal year may not exceed $150M. In addition to the maximum annual cost of goods and services that may be provided, the FAA proscribes the following restrictions for providing assistance under Sec 506(a)(2):

- Total assistance provided by DoD may not exceed $75M in any fiscal year

- Assistance provided for counternarcotics may not exceed $75M in any fiscal year

- Assistance for locating and repatriating U.S. military and civilians from the Vietnam War may not exceed $15M in any fiscal year

Section 506(b) requires the President to keep Congress fully informed and includes Congressional notification requirements for both emergency and non-emergency drawdowns.

- Assistance provided to support counternarcotics or refugees and migration requires 15 day advance Congressional notification

- Emergency assistance requires prior notification to the House of Representatives International Relations Committee, the Senate Committee on Foreign Relations, and the Committee on Appropriations of the House and Senate

- Section 506(b)(2) requires a report to Congress detailing all deliveries of defense articles, services, military education and training

Section 506(c) authorizes contracting for commercial transportation and related services if the cost of such acquisition is less that the cost of the USG providing such services from existing agency assets.

Except for commercial transportation, Sec 506, FAA does not anticipate or authorize the use of new funding to procure articles or services to be provided under a drawdown. New procurement, including new funding on existing contracts, is not authorized.

Section 506(d) authorizes Congress to appropriate funds to reimburse the applicable appropriation, fund, or account (e.g. military services and DoD agencies) for defense articles, services and military training provided under Sec 506, FAA. Section 632 of the FAA (codified in 22 U.S.C. § 2392) provides for reimbursement to any USG agency. Military salaries are not counted towards a drawdown and may not be reimbursed.

Section 552(c)(2), FAA - Peacekeeping Operations

As codified in 22 U.S.C. § 2348a, Sec 552(c)(2) of the FAA authorizes the drawdown of commodities and services to support unforeseen emergencies related to Peacekeeping Operations.

The International Security and Development Cooperation Act of 1985 (Public Law (P.L.) 99-83) added this section to the FAA. Support may be drawn from the inventory and resources of any USG agency consistent with the following limitations:

- Total USG assistance provided may not exceed $25M in any fiscal year

- Requires a Presidential Determination to Congress which states that immediate assistance is needed for the unforeseen emergency

P.L. 105-277, Sec 554 - War Crimes Tribunal

Under Sec 554 of P.L. 105-277, the FY99 *Omnibus Appropriation Act*, the President is authorized to direct the drawdown of USG goods and services to support the United Nations War Crime Tribunal dealing with war crimes in the former Yugoslavia.

- Requires a Presidential Determination to Congress stating the drawdown contributes to a just resolution of charges of genocide or other violations of international humanitarian law.

- May not exceed a total cost of goods and services of $30M in any fiscal year.

P.L. 105-277, Title III - Drawdowns for Jordan and Tunisia

Title III of the FY99 Omnibus Appropriations Act, P.L. 105-277, authorizes drawdowns of DoD articles and services, including military education and training, for both Jordan and Tunisia. Procurement of commercial transportation pursuant to the authority in Sec 506(c), FAA, is expressly authorized; other new procurement or contracting is not.

- For Jordan, an aggregate value not less than $25M

- For Tunisia, an aggregate value not less than $5M

- The drawdown value for Tunisia is also to be counted towards meeting Tunisia's FY99 FMFP allocation of $7M

P.L 105-338, Sec 4(a)(2) - Iraq Liberation Act of 98

The Iraq Liberation Act of 98 authorized a unique drawdown for FY99. The Act authorizes the drawdown of up to $97M in military articles, services and training for Iraqi democratic opposition organizations in support of efforts to overthrow Saddam Hussein. Recipient organizations were not specified in the Act. No drawdown has yet been directed under this authority.

Previous Drawdowns

Defense Security Cooperation Agency (DSCA) data indicate that from FY 80-92 a total of 22 drawdowns for $562.5M were authorized. From FY93-FY97, 29 drawdowns for $626.1M were authorized. Thus, the pace of using drawdowns has increased in recent years. These drawdowns include those executed under the recurring authority of Sec 506, FAA and numerous special drawdowns. Special drawdowns in the last few years include, for example, $100M to train and equip the Bosnian Federation military and two drawdowns for Jordan totaling $125M.

Basic Drawdown Policies

The FAA and DoD 5105.38-M, Security Assistance Management Manual, outline the basic policies governing drawdowns for DoD. DSCA, as DoD's executive agent for planning and executing drawdowns may also issuing additional guidance. Some of the general policies underpinning the drawdown process are as follows:

- Drawdowns are an interagency process, usually involving Department of State (DoS), National Security Council (NSC), DoD and the military services. Other USG agencies also participate as appropriate.

- Drawdowns are authorized by law through Presidential Determinations.

- Authorizations for drawdowns provide neither additional funding nor contracting authority for DoD to execute a drawdown.

- Material, services and training provided come from on hand DoD stocks or resources.

- Material must be physically on hand and should be Condition Code B or higher (Fully Mission Capable).

- The military services must reimburse the Defense Logistics Agency (DLA) for the Defense Working Capital Fund (DWCF) material and services DLA is tasked to provide for a drawdown.

- The impact on operational military readiness is a key consideration in determining whether material on hand can be provided and in what quantity.

- Support packages may be included for major end items of equipment provided under the drawdown.

- Transportation costs are "drawdownable".

- Recipient countries must agree to the standard "505 Assurances" on transfer and end use for equipment provided under a drawdown. (This refers to the provisions contained in Section 505, FAA whereby a recipient of U.S. origin equipment agrees to use the delivered articles and services for the purposes provided and agrees not to transfer without first obtaining USG approval for either action.)

FY 98 Drawdown for Counternarcotics Assistance

The FY98 Drawdown for Counternarcotics Assistance provides a case study in how a drawdown is used in a non-emergency situation to support U.S. foreign policy. The policy in this case is *The 1998 National Drug Control Strategy*, promulgated by the Office of National Drug Control Policy, which delineates specific strategic goals and objectives for the U.S. counternarcotics efforts. The FY98 drawdown most directly supports the following goals and objectives:

- "Goal 4: Shield America's air, land, and sea frontiers from the drug threat."

- "Objective 3: Improve bilateral and regional cooperation with Mexico as well as other cocaine and heroin transit zone countries in order to reduce the flow of illegal drugs into the United States."

- "Goal 5: Break foreign and domestic drug sources of supply."

- "Objective 1: Produce a net reduction in the worldwide cultivation of coca, opium, and marijuana and in the production of other illegal drugs, especially methamphetamine."

- "Objective 3: Support and complement source country drug control efforts and strengthen source country political will and drug control capabilities."

Key Players

As previously mentioned, drawdowns are an interagency process. To better appreciate the context within which drawdowns are planned and executed requires a basic recognition of some of the key players. This list is not all-inclusive as every drawdown can be different in some respect. The first four are, however, the primary DoD participants in every drawdown DoD supports.

Defense Security Cooperation Agency

DSCA, as noted earlier, serves as the Executive Agent for DoD for the planning and execution of the DoD portion of a drawdown. DSCA works closely with DoS, other DoD and USG agencies, the Joint Staff and military services to identify and refine requirements and develop costs of the goods, services and transportation. DSCA will develop the overall execution plan and issue the requisite execute orders to the military services and DoD agencies. DSCA endeavors, when feasible and practical, to spread the drawdown requirements across the military services and endeavors to inform decision-makers of the impact of the drawdown on DoD and the services. It monitors execution of the drawdown, provides necessary reports to Congress and, upon completion of the drawdown, ensures the financial reconciliation for DoD's portion of the drawdown is completed.

Joint Staff

The Joint Staff's role in drawdowns is focused on the impact on operational readiness. The Joint Staff is provided a copy of the proposed list of material, services and training to be drawn down. The Joint Staff then reviews the proposed list with each of the services and the combatant Commanders-in Chief (CINCs), as appropriate, and determines what the impact on military readiness will be. The Joint Staff provides its coordinated assessment to DSCA.

Military Services

The Services, in particular Navy International Programs Office (IPO), Secretary of the Air Force/International Affairs (SAF/IA), Deputy Undersecretary of the Army for International Affairs (DUSA/IA) and the service implementing agencies, U.S. Army Security Assistance

Command (USASAC), Air Force Security Assistance Center (AFSAC), and Navy Inventory Control Point (NAVICP), are major players in the planning and execution of DoD supported drawdowns. As the scope and focus of a drawdown are developed, the services identify candidate material, services and training that could be provided. The services develop projected cost or value of the candidate items. The projected cost includes value of the material, including support packages for end items; estimated cost for any "in-house" refurbishment to bring equipment to fully mission capable status; expected cost of any training to be drawn down; packing, crating and handling estimated costs; and projected transportation costs. The military services also identify operational readiness and budgetary impacts of the drawdown and provide the information to the Joint Staff and DSCA. As required, during the drawdown planning and execution phases, the services continue to refine costs and availability of goods and services they may provide. When the Presidential Determination is signed and DSCA issues the execute order(s), the services execute the drawdown -- requisitioning the material, arranging shipment, and arranging to provide the other services and training. (The execution of a drawdown is similar to the processing of a Foreign Military Sales case; many of the same procedures are used to requisition and ship material and organize training. The primary difference is that no new procurement is authorized.)

Security Assistance Organizations (SAOs)

As with other security cooperation programs, SAOs are key members of the Country Team. During the drawdown planning phase, SAOs work to identify the defense related material, services and training needs of their host country, which are within the scope of the drawdown. Working with other members of the Country Team, the SAO assists with the development of the Country Team's consolidated list of the host country's requirements which is sent to DoS, DoD and other USG agencies as appropriate. The SAO also provides information as requested on host country recipients of DoD's material and services, necessary information for the shipment and delivery of the items, and assists with obtaining the country's "505 assurances". During the execution phase, the SAO facilitates and monitors the delivery of DoD provided goods and services in country. The SAO also conducts normal end use monitoring after delivery.

DoS will also play a role in all drawdowns given the foreign policy implications. Which bureau or office within DoS has the lead depends on the reason and scope of the drawdown. The following DoS organizations are key players for the FY 98 Counternarcotics Drawdown.

Bureau of International Narcotics and Law Enforcement Affairs (INL)

State INL is responsible for the development of policies and procedures to combat international narcotics. This includes military, economic and security assistance for drug control to foreign countries. INL executes dual functions - developing policy and providing assistance. INL has the lead in developing and incorporating counternarcotics policies and programs into U.S. foreign relations to prevent the production of illicit drugs and smuggling of these drugs into the U.S. In the assistance arena, INL works with other USG agencies, such as the Drug Enforcement Agency, DoD and Agency for International Development to provide assistance, including equipment, to the governments of source and transit countries to reduce cultivation, execute drug control missions, and conduct drug education programs. In the case of the FY98 drawdown, State INL identified the need for the drawdown, developed the Administration's justification for the drawdown, and tasked embassy country teams to identify requirements for goods and services.

Narcotics Affairs Sections (NAS)

In some countries, such as Bolivia, Peru, Colombia, and Mexico, to name a few, the embassy Country Team includes a Narcotics Affairs Section comprised of INL personnel. The size of the NAS varies from country to country. The NAS advises the Ambassador and Country Team on policy and manages INL projects and programs in the host country. NAS personnel work closely

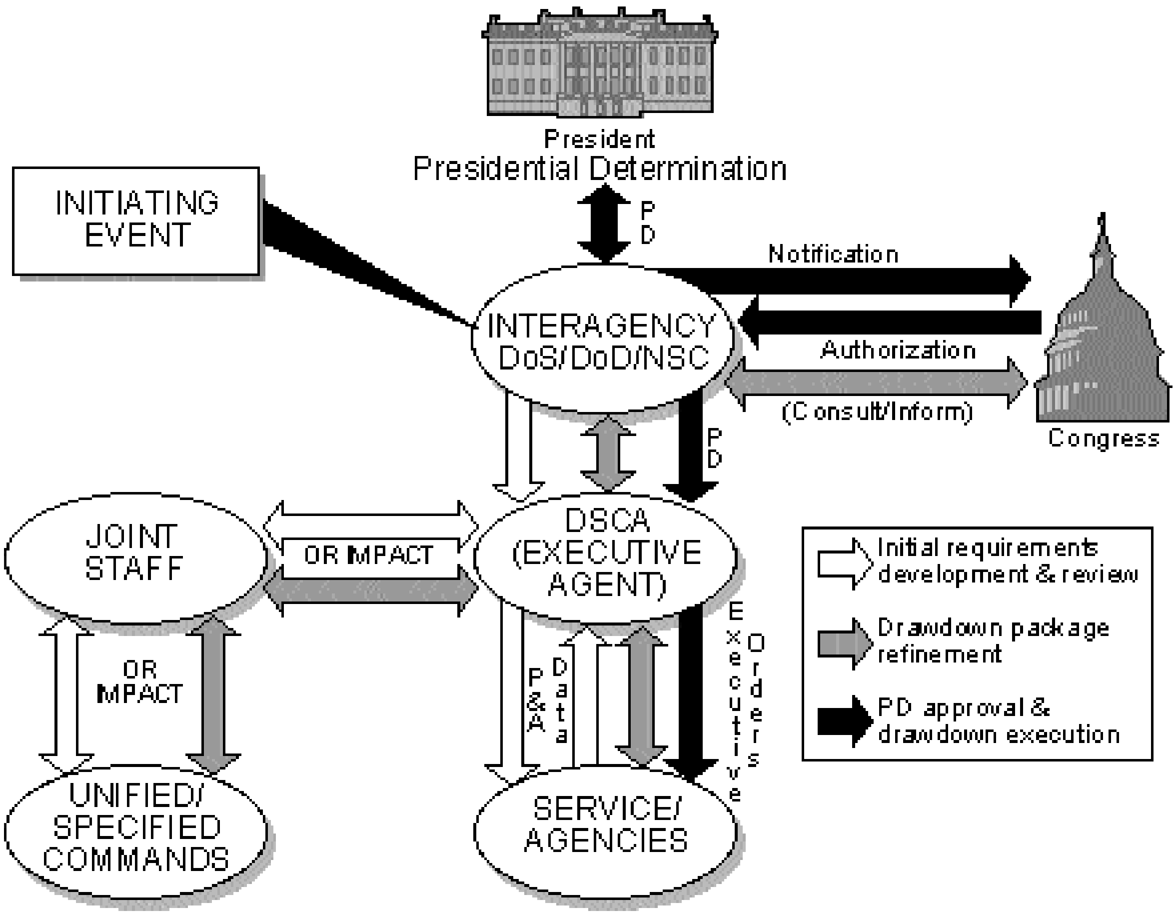


Figure 1. Generic Drawdown Flowchart

with the host country government and members of the Country Team, including the SAO. During the counternarcotics drawdown planning phase, the NAS, like the SAO, also worked to identify requirements to support counternarcotics programs within the host country. These requirements became part of the Country Teams' consolidated requirements list for the FY98 drawdown.

Planning of the Drawdown

As indicated, the potential requirement for a drawdown may come from the occurrence of a natural disaster or military emergency in a foreign country, Congress may pass legislation for a drawdown to support a specific requirement, such as peacekeeping, or the need may be identified by the Administration to be accomplished under existing legal authority. The latter is the case of the FY98 Counternarcotics Drawdown. In April 1998, the State Department, in coordination with the Counternarcotics Interagency Working Group (CNIWG), sent an interagency message to the

U.S. embassies in South America and the Caribbean informing them that:

> We are considering the possibility of requesting that the President notify Congress. . . . of his intention to direct a drawdown under Section 506 (a)(2) of the Foreign Assistance Act of 1961, as amended, for anti-narcotics purposes. We are considering this course of action due to a serious shortfall in the International Narcotics Control Account for FY 98, extraordinary challenges which have arisen in Colombia, and opportunities to capitalize on successes in coca reduction in Peru and Bolivia.

State's interagency message directed the embassy Country Teams to provide a prioritized list of equipment, training and services to improve their host country's counternarcotics capabilities.

Initial Review

State INL and DoD reviewed the Country Team responses and developed a consolidated list of potential DoD requirements. The list was extremely varied, including everything from Meals Ready to Eat (MRE), radios, CTA 50-900 uniform and field equipment items, small arms, vehicle and aircraft spare parts and trucks. As the DoD Executive Agent, DSCA had the responsibility to coordinate with the services to determine what equipment and services DoD may be able to provide. DSCA provided the list to the services security assistance implementing agencies (USASAC, SAF/IA and Navy IPO) and Defense Logistics Agency for their review. DSCA requested they provide projected availability and estimated costs (P&A data) for the candidate equipment and services. In requesting P&A data for drawdowns, DSCA requests the data include all potential costs associated with providing the equipment and services; this may include the Total Package Approach (TPA) for major end items unless TPA is waived. Projected potential costs include:

- Value of equipment/material
- Cost for service to repair equipment to Full Mission Capable condition
- Cost for training specifically included in the drawdown and associated with equipment being provided
- Spare parts, tools, publications associated with TPA for major end items provided
- Transportation and shipping costs
- Costs for packing, crating and handling

In their responses to DSCA, the services identified which items could not be provided. Major reasons were that an item was not on hand or the service did not have the "in-house" capability to repair an item to "Full Mission Capable" condition, or the "in-house" capability to provide the specified service or training. (In these instances, DSCA coordinates with the services, DoS, other DoD and USG agencies to determine if an alternate source can be identified. If not, then these items or services are "non-drawdownable" and are no longer valid candidates to be included in the final drawdown package.) The services may also include in their response, any operational impact associated with providing any of the candidate equipment and services.

After receiving the P&A data from the services and other defense agencies, DSCA reviewed and consolidated the information, developing the DoD "strawman" list of reasonably available candidate equipment, services and training for the drawdown. DSCA then provided the "strawman" list to the Joint Staff, offices within OSD, and the services for comment. The key action during this coordination step is the Joint Staff's assessment and/or validation of the services' position on the drawdown's operational impact on the military. It is important to note that the assessment of the operational impact of the drawdown on the military services does not address just the loss of equipment from stock or providing the services and training, but also the impact of diverting O&M funds from other activities programmed by the services to support the provision of services or training being drawn down or reimbursing DLA for DWCF items which may be provided. The diversion of O&M funds from these other programmed activities may have the greatest adverse impact on the services. The end result is a coordinated DoD position on the operational impact of the drawdown.

As previously indicated, DSCA endeavors to distribute drawdown requirements across the military services to mitigate the impact on one service as much as possible. The 1998 Counternarcotics drawdown is a good example of this as the Navy and Air Force are providing MREs and basic field equipment items, e.g. helmets, web belts, canteens, ponchos. In addition, DoD almost always excludes material and services from a drawdown which the services and Joint Staff indicate will have a significant operational impact.

Interagency Review

Once DoD completed its review, DSCA provided the candidate drawdown list to DoS, NSC and other USG agencies for an interagency review (CNIWG). The purpose of the interagency review is to reach a general consensus on the proposed drawdown package and resolve any contentious issues. During this interagency review the proposed drawdown list of candidate material and services was reviewed and items prioritized for inclusion on the final list of candidate material and services. Using the P&A data supplied by the services, and considering the operational impact assessments provided, the objective was to build a final list of candidate items which meets the anticipated drawdown value.

Presidential Determination

Once the interagency review was completed, the next step was DoS drafting the Presidential Determination (PD), associated background memorandum and Congressional notification requirements. The background memorandum is normally called a Memorandum of Justification (MOJ).

For the FY98 Counternarcotics Drawdown, and most drawdowns in general, the PD is the official authorization to execute the drawdown. USG agencies, such as DoD, are not authorized to initiate any action to provide material or services to the recipient countries until the President signs the PD. In the PD, the President states the reason for the drawdown, purpose of the drawdown, the legislative authority, and an executive summary of the types of and/or purpose for which USG material and services are being provided. Finally, the PD also sets the dollar value ceiling for the drawdown. The value of goods and services for the FY98 Counternarcotics Drawdown was $75M-$70M from DoD and the remainder from DoS, Department of the Treasury, Department of Justice, and Department of Transportation (U.S. Coast Guard). The text of the PD is included as Attachment 1.

The MOJ provides a more detailed justification for a drawdown. In this case, the MOJ spelled out the continuing need for assistance to countries in the on-going effort to eradicate illegal drug production and interdict drugs being transported to the U.S. The MOJ also generally described the material and services being provided under the drawdown and included a copy of the list of candidate material and services. The completed MOJ is important to DoD and other supporting USG agencies as it serves as a guide in determining what material and services are and are not within the scope of the drawdown.

The President signed the Presidential Determination for the FY98 Counternarcotics Drawdown on 30 September 1998. The PD contains an important human rights restriction on providing the equipment:

> As a matter of policy and consistent with past practice, the Administration will seek to ensure that the assistance furnished under this drawdown is not provided to any unit of any foreign country's security forces if that unit is credibly alleged to have committed gross violations of human rights unless the government of such country is taking effective measures to bring the responsible members of that unit to justice.

This restriction is likely an outgrowth of provisions in Section 570 of the FY98 Foreign Operations Appropriations Act (P.L. 105-118) which placed restrictions on assistance to security forces funded under this Act. The provisions of Section 570 are as follows:

> None of the funds made available by this Act may be provided to any unit of the security forces of a foreign country if the Secretary of State has credible evidence that such unit has committed gross violations of human rights, unless the Secretary determines and reports to the Committees on Appropriations that the government of such country is taking effective measures to bring the responsible members of the security forces unit to justice: provided, that nothing in this section shall be construed to withhold funds made available by this Act from any unit of the security forces of a foreign country not credibly alleged to be involved in gross violations of human rights, provided further, that in the event that funds are withheld from any unit pursuant to this section, the Secretary of State shall promptly inform the foreign government of the basis for such action and shall, to the maximum extent practicable, assist the foreign government in taking effective measures to bring the responsible members of the security forces to justice so funds to the unit may be resumed.

The distinction between the PD and Section 570 is that Section 570 does not technically apply to material and services from DoD stocks since DoD is not funded under Foreign Operations appropriations. For the FY98 Counternarcotics Drawdown, Section 570 does apply to material and services provided by DoS using International Narcotics Control funds which were funded under the Foreign Operations appropriations. By including this similar condition in the drawdown PD, all material and services provided through the drawdown are affected, regardless of which USG agency provides them or the source of funding. For the Country Teams, this means that they must verify that all recipient security force organizations in their host countries are eligible under these conditions to receive material and services under this drawdown, including those provided from DoD stocks.

It is worth noting that the human rights provisions of Section 570, FY98 Foreign Operations Appropriations Act (FOAA), have been reaffirmed for FY99. The same wording is included in Section 568, FY99 FOAA.

Drawdown Execution

With the signing of the PD, DoS, DoD, and other agencies shifted to executing the drawdown. Subsequent to the signing of the PD, DoS sent two interagency cleared messages to the affected embassy Country Teams. The first message notified the Country Teams that the President had authorized the drawdown. The message contained a general listing, by country, of the material and services to be provided and estimated values. The message also requested the embassies to appoint points of contact for coordinating the execution of the drawdown and delivery of the items. The second message tasked embassy Country Teams to obtain the required "505 Assurances" on retransfer and end-use from their host nation government. This is usually done

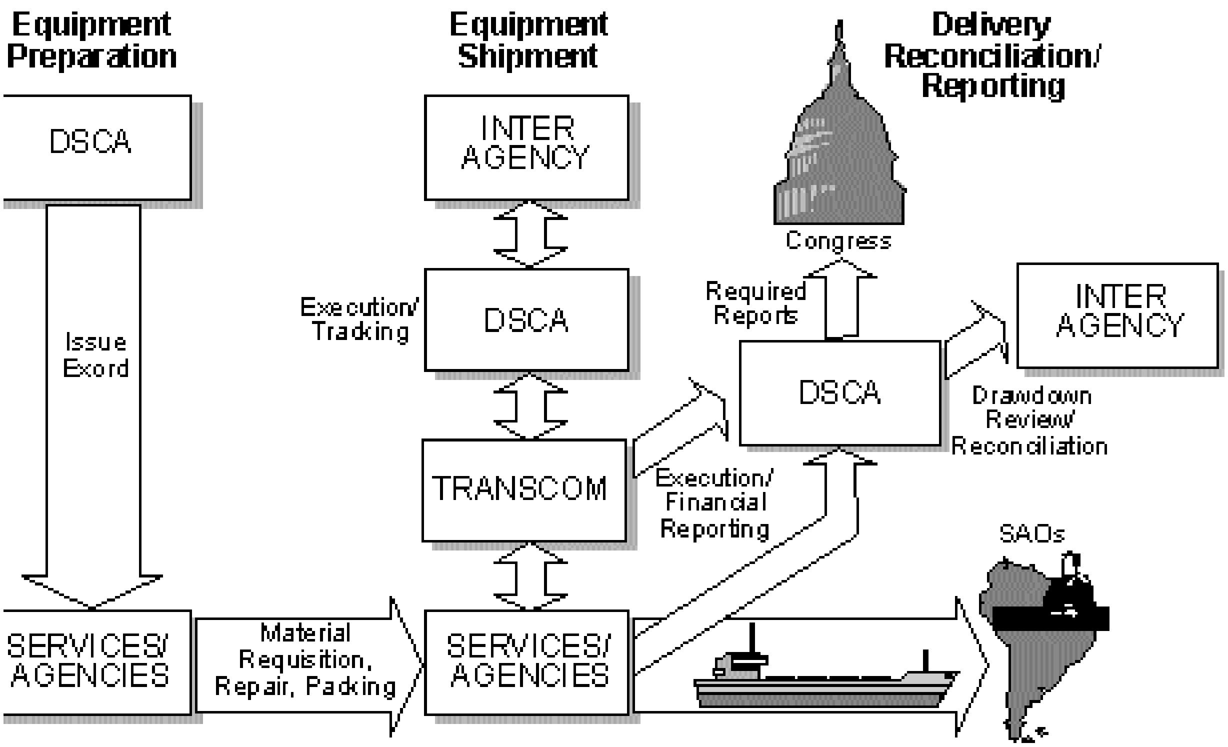


Figure 2: Generic Drawdown Execution Flow Chart

through an exchange of diplomatic notes. No goods and services may be provided to a recipient country until it provides the required assurances for the drawdown.

At the same time, DSCA orchestrated DoD's execution effort. DSCA ensured final agreement on the DoD portion of the drawdown package and distribution of the taskings for providing the material and services among the services and other DoD agencies. If extensive internal DoD coordination is done prior to the signing of the PD, as in this case, final agreement should be accomplished quickly. DSCA's major task was consolidating the information required to develop the DoD Execute Order (EXORD). For example, DSCA coordinated with the Joint Staff J4 for assignment of the required Project Code for the drawdown and the Force Activity Designator (FAD) level for the appropriate priority in requisitioning and shipping the material.

The EXORD directs DoD to execute the drawdown and provides necessary policy and guidance. The initial EXORD and supplemental EXORDs, issued as required, provide information for the services, other affected DoD agencies and SAOs. The information provided generally includes:

- Authority for the drawdown
- Taskings by service/agency
- Coordinating Instructions:
  - Project Code
  - Force Activity Designator level
  - Equipment Condition Standard (normally - fully mission capable)
  - Guidance for requisitioning spare parts ("fill" or "fill or kill")
  - Allocation of Record Control Numbers among services/agencies for cost report ing to DSCA
  - Reiterates basic drawdown policies (e.g. no new procurement, reimbursement of DLA for DWCF items)
  - Service funding of transportation costs to destination
- Transportation Instructions (as applicable):
  - Required Delivery Dates
  - Collection and Consolidation Points for material
  - Aerial and Sea Ports of Embarkation and Debarkation
  - DoD Address Code (DODAC) and Military Assistance Program Address Directory (MAPAD) for recipient countries
  - Any additional delivery, handling or other special instructions

DSCA issued the initial EXORD for the FY98 Counternarcotics Drawdown on 30 November 1998. Upon receipt of the DSCA EXORD, the services developed and transmitted their execute orders to the implementing agencies (e.g. USASAC, SATFA, SATMO, AFSAC, AFSAT, NAVICP). Each service executes the drawdown in keeping with the DSCA EXORD and using its own unique policies and procedures, just as it does in developing and processing FMS cases. It is worth reiterating again that the services will endeavor to provide all the material and services on the drawdown list. Circumstances may change, however, that will preclude them from providing an item or the full quantity originally planned. Drawdowns compete with on-going service requirements, FMS customer requests, and even other drawdowns; available stocks of an item may, for example, be exhausted.

The services will also coordinate with U.S. Transportation Command (USTRANSCOM) and Military Traffic Management Command, Military Sealift Command and Air Mobility Command, as appropriate, to coordinate transportation of the material to the recipient countries; transportation instructions contained on the DSCA EXORD apply. Transportation for drawdowns is restricted to the use of DoD sealift and airlift assets. Commercial aircraft and ships under long term contract or charter may be used, but only if the scope of the existing contracts and charters meet the "no new contracting/procurement" restrictions mentioned previously.

A significant execution challenge for DSCA, the services and other participating DoD agencies is the financial management of the drawdown. The drawdown authority specified in the PD may not be exceeded. This includes establishing the value of every item based on the guidelines in DoD 7000.14-R, Financial Management Regulation, capturing costs for reimbursing DLA for the DWCF items, determining and capturing the other drawdownable costs mentioned earlier, including transportation costs. An accurate financial reconciliation is important. DoD (DSCA) must submit a report to Congress confirming the value of the goods and services provided under the drawdown and a summary of what was provided.

As noted at the beginning of the article, SAOs are important players during the execution phase. SAOs may assist in obtaining required "505 Assurances" from their host nation; provide information, as requested, to facilitate transportation to the host country and within the host country to designated final destinations; provide updated delivery status on material and services; coordinate the scheduling and execution of training being provided under the drawdown, including identifying specific training requirements and courses; and assist with troubleshooting challenges as they arise. Post drawdown, the SAOs will be responsible for the end-use monitoring of the equipment provided under the drawdown to their host country, just like all U.S. origin equipment, and assist their host country in dealing with the associated and subsequent equipment sustainment and maintainment challenges which will arise.

SUMMARY

Drawdowns have proven to be an important foreign policy tool. The President and Congress will likely continue to use drawdowns to provide assistance to countries and organizations for emergencies and to support U.S. foreign policy objectives in other situations deemed in the U.S. national interest. For DoD, a drawdown may impact the services' availability of equipment and services to meet other priorities and their operational budgets since the equipment and services provided come from on hand stocks. The challenge for DoD is to continue to support, to the maximum extent possible, future drawdowns directed by the President or Congress.

About the Author

LTC Russ Crumrine is currently assigned to the Defense Institute of Security Assistance Management (DISAM) where he serves as the Deputy Director of International Studies and the Director of Middle East Seminars. LTC Crumrine's security assistance assignments also include Security Assistance Programs Manager for the Middle East/North Africa and Aegean regions in the Directorate of Logistics and Security Assistance, Headquarters, U.S. European Command and as Joint Actions Officer, Military Assistance Program, American Embassy, Amman, Jordan.

ATTACHMENT 1

PRESIDENTIAL DETERMINATION

THE WHITE HOUSE
WASHINGTON
September 30, 1998

Presidential Determination
No. 98-41

MEMORANDUM FOR THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE ATTORNEY GENERAL
THE SECRETARY OF TRANSPORTATION

SUBJECT: Drawdown Under Section 506 (a) (2) of the Foreign Assistance Act to Provide Counternarcotics Assistance to Bolivia, Brazil, Colombia, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Mexico, Peru, Trinidad and Tobago and the Countries of the Eastern Caribbean

Pursuant to the authority vested in me by section 506(a) (2) of the Foreign Assistance Act of 1961, as amended, 22 U.S.C. 2318 (a) (2) (the "Act"), I hereby determine that it is in the national interest of the United States to draw down articles and services from the inventory and resources of the Department of Defense, military education and training from the Department of Defense, and articles and services from the inventory and resources of the Departments of Justice, State, Transportation, and the Treasury for the purpose of providing international narcotics assistance to Bolivia, Brazil, Colombia, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Mexico, Peru, and Trinidad and Tobago; and to Antigua and Barbuda, Barbados, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines (hereinafter, "the Eastern Caribbean countries").

Therefore, I direct the drawdown of up to $75 million of articles and services from the inventory and resources of the Departments of Defense, Transportation, Justice, State, and the Treasury, and military education and training from the Department of Defense, for Bolivia, Brazil, Colombia, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Mexico, Peru, Trinidad and Tobago, and the Eastern Caribbean countries for the purposes and under the authorities of chapter 8 of part I of the Act.

As a matter of policy and consistent with past practice, the Administration will seek to ensure that the assistance furnished under this drawdown is not provided to any unit of any foreign country's security forces if that unit is credibly alleged to have committed gross violations of human rights unless the government of such country is taking effective measures to bring the responsible members of that unit to justice.

The Secretary of State is authorized and directed to report this determination to the Congress immediately and to arrange for its publication in the Federal Register.

WILLIAM J. CLINTON

EDUCATION AND TRAINING

The Debut of the Logistics/Customer Support Course (SAM-CS)

By

MAJ Joanne B. Hawkins, USA

I am the course director of DISAM's newest offering to the security assistance community, the Logistics/Customer Support Course (SAM-CS). We introduced the course in late September 1998. Since then we have had two additional classes, one in a four-day on-site mode in November 1998 and one in a five-day resident mode in February 1999. The feedback from the students has been very positive.

We received written requests in FY98 from the deputy commanders of USASAC, Navy-IPO, and SAF/IA for DISAM to develop this course. The military departments have long expressed a sense of frustration that the same logistics problems keep cropping up, i.e., as one error or mistake is resolved, the same discrepancy reoccurs, often in the same organization. The MILDEPs requested that DISAM develop a course that would reach not only DoD personnel, but freight forwarders, contractors, and foreign customers as well. The objective of the course is to identify recurring logistics problems, and teach people how to resolve them or prevent them from happening in the first place. The course focuses on the elements of the Total Package Approach from a problem avoidance standpoint. Last summer we pulled together several logistics experts from the ILCOs and DLA to define the audience and identify the curriculum. The first pilot session was conducted in September 1998 with 28 representatives from Army, Air Force, Navy, Marine Corps and DLA. The critiques and after-action review from this course as well as the first on-site course that we held in November for 28 Air Force personnel resulted in a refinement of various elements of the curriculum. We believe that the Logistics/Customer Support Course (SAM-CS) addresses the major logistics concerns of the FMS customers, the MILDEPs and DLA.

The course is designed to provide personnel who are directly involved in or concerned with FMS requisitions and materiel movement with a comprehensive understanding and application of the policies, procedures, systems and actions necessary to move FMS materiel from its initial requisition to its shipment to the customer's final destination. The objective is to understand the functions of key organizations involved in materiel distribution, to include the ILCOs, DLA, contractors and freight forwarders. Students will learn the proper procedures for processing requisitions, and the handling and movement of Security Assistance program materiel, with the objective of reducing or preventing deficiencies in the FMS materiel distribution process. The course encompasses a broad variety of topics, including legislative requirements; implementing DoD directives and instructions; requisition processing; contract awards; item management;

packaging requirements; commercial and government transportation; classified and hazardous material movement; publications support; and discrepancy reporting.

The course is conducted on a lecture and workshop basis, with exercises requiring direct student and group participation. The exercises replicate actual situations that have confronted practitioners involved in program/case management. A unique feature of the course is a series of presentations by Army, Navy, and Air Force representatives from the ILCOs, and the DLA International Programs Group, a freight forwarder, and other service-level field experts to lead discussions on troubleshooting and problems resolution. For a more detailed description of the SAM-CS curriculum, and a list of scheduled course offerings, see the DISAM Course Catalog on our web site at http://disam.osd.mil.

We are offering the SAM-CS Course in two versions. The resident version is five days long and includes a workshop. Classes start at 0800 each day and go until 1600. The on-site version is four days long and the workshop exercises are discussed throughout the course or assigned as homework. The hours are determined by the hosting activity, but each training day includes at least seven hours of actual class time. What makes this course different from all other DISAM courses, and what makes it particularly attractive, is that this course is available as an on-site course with DISAM funding the faculty and guest speakers travel/TDY costs.

Since we began offering this new course we have received several phone calls with questions concerning scheduling and attendance. Here are the most frequently asked questions and answers:

Who Can Attend the SAM-CS Course?

The Logistics/Customer Support Course (SAM-CS) is open to all personnel supporting FMS logistics, including DoD personnel, contractor personnel and freight forwarders and customer foreign liaison officers. The course is specifically targeted at case managers, system program managers, procurement and administrative contracting officers, contract specialists, quality assurance specialists, item managers, transportation coordinators, customer service representatives, logistics managers at the embassy or SAO, freight forwarders, port facility managers, contractors, and supply specialists. In fact, just about everyone involved in the requisition, issue and movement of FMS material from DLA, Army, Air Force, Navy, Marine Corps, GSA, FMS customers, supporting contractors, direct vendors, and freight forwarders can attend.

Do I Have to Have Any Previous Courses or Training?

No. Attendance at a DISAM resident course or its on-site equivalent is NOT a prerequisite for the SAM-CS, as it would preclude attendance at the SAM-CS by individuals who are not involved in FMS activities full-time or whose offices cannot afford their absence for more than 5 days. However, it would be very helpful to the student to have had at least the general three-day on-site course. The first half-day of the course is spent discussing the principles of the security assistance program and FMS procedures, to serve as an introduction for people unfamiliar with the FMS business and to refresh those people who have not attended a course in a long time. It is strongly recommended, however, that foreign purchasers without a strong FMS background, or for whom English is not their primary language, attend the two week DISAM Foreign Purchaser Course (SAM-F) prior to attending the SAM-CS Course. All students need to be aware that the Logistics/Customer Support Course is very fast paced and technical, and requires a great deal of reading during the first two days of instruction.

How Can My Organization Receive an On-Site Course?

In FY2000 DISAM will offer three on-sites of the Logistics/Customer Support Course. Prospective hosts for the on-site courses need a minimum of 30 students to make export to their location cost effective. There is no maximum number of students that can be taught. Rather attendance is limited to the capacity of the facility in which the course will be held. In addition, the hosting activity must have a computer with PowerPoint™ (available for instruction, and Internet capability, which is needed to demonstrate several unique logistics systems in class. Requests for a FY2000 Logistics/Customer Support Course (SAM-CS) on-site must be submitted in writing to DISAM, ATTN: Mr. Gary Geilenfeldt, Building 125, 2335 Seventh Street, Wright-Patterson AFB OH 45433-7803. The request should identify the name of the hosting organization, the point of contact for setting up the training at that organization, and the number of students projected to attend. Attendance at the on-site course should not be limited to just the hosting organization. In order to maximize the use of DISAM training funds, it is expected that the hosting activity invite any logistics related organizations in that geographic area to participate. Requests are filled on a first-come, first served basis. DISAM pays all costs associated with travel and per diem of instructors and guest speakers to the hosting on-site location. DISAM also pays for the training materials and shipment of those materials to the hosting on-site activity. However, DISAM will not pay the expenses for students who wish to attend an on-site course in a TDY status. Students who cannot commute to an on-site course in their area, or whose organizations will not pay their TDY costs should plan on attending a resident SAM-CS course at DISAM. The reason DISAM cannot pay TDY expenses for students attending on-site courses is because we cannot control the costs for lodging and transportation within areas outside of the general Dayton, Ohio area.

DISAM has firm dates and locations for the remaining on-sites for FY99. NAVICP-OF is sponsoring an on-site course (SAM-CS-3) from 18-22 May in Philadelphia. Individuals in the Philadelphia area who are interested in attending that course should contact Ms. Toby Agin at (215) 697-4390. The U.S. Army Security Assistance Command (USASAC) in New Cumberland, Pennsylvania is sponsoring an on-site course (SAM-CS-4), in the New Cumberland/ Mechanicsburg/Harrisburg area. The point of contact for that course is Ms. Linda Enterline at (717) 770-6918. The last on-site of FY99 is being sponsored by NADEP-Jacksonville, Florida from 14-17 September. Mr. Victor Barahona at (904) 542-0861 is the point of contact for enrollment in that on-site course (SAM-CS-6). In all cases, students should enroll through their organization's training coordinator.

Are There Enrollment Quotas?

There are enrollment quotas only for the five-day resident course. Generally the course quotas are established by the numbers of students each military department projects prior to the start of the fiscal year. But those quotas are not concrete, and typically one military department will not use its full quota for a specific course. So the bottom line is, if your training coordinator indicates that there are no more slots available for a particular course, contact the DISAM registrar directly and we can fill unused quotas from other services on a first-come, first-served basis. DISAM can enroll 32 students per resident SAM-CS Course.

The number of students in a SAM-CS on-site course is determined by the hosting activity and the training facility's capacity. The minimum number of students is 30. If you are interested in attending an on-site course, contact the on-site course coordinator at the hosting activity to see if there is space available.

How Can Industry Personnel and Freight Forwarders Enroll in the SAM-CS Course?

Contractors working FMS programs in support of a military department can attend free of charge using a MILDEP quota coordinated through the MILDEP organization's training office. Contractors who are not sponsored by a military department, and freight forwarders, can enroll directly with the DISAM registrar by either sending a letter to DISAM/DAS, Building 125, 2335 Seventh Street, Wright-Patterson AFB OH 45433-7803, or faxing their request to (937) 255-3441, or by registering on-line at the DISAM Web site at http://disam.osd.mil. Industry personnel who are not sponsored by a military department and freight forwarders must pay a tuition fee. The current tuition cost is approximately $1520 (subject to change) which covers all textbooks, including the textbook *The Management of Security Assistance* and an instructional copy of the *Security Assistance Management Manual, DoD 5105.38-M*. Industry personnel and freight forwarders should not send money at the time of registration. When the course is convened and attendance verified the student's company will be billed for the tuition cost.

How Can Foreign Customers Enroll in the SAM-CS Course?

Foreign customers overseas and Foreign Liaison Officers in CONUS must go through their SAO and through the Air Force Security Assistance Training activity (AFSAT) to obtain a training quota, and be charged the appropriate tuition charge against an FMS case. The MASL ID for the Logistics/Customer Support Course is D178238. Foreign Liaison Officers in CONUS may attend an on-site SAM-CS provided that the training has been coordinated through the SAO and the Liaison Officer's military department. Generally, if the country has a blanket order training case with AFSAT, the liaison officer's tuition can be charged to that case.

How Can Embassy/SAO Personnel Enroll in the SAM-CS Course?

U.S. personnel stationed overseas, to include Foreign Service Nationals (FSN) working for the SAO/embassy, may attend the resident SAM-CS course free of charge. DISAM will pay per diem and travel costs from the CONUS point of entry to DISAM and return to the CONUS point of departure. The SAO/embassy is responsible for travel and per diem costs from the overseas location to the CONUS point of entry and return. Embassy/SAO personnel should enroll directly with the DISAM registrar.

How Do I Register for the Resident SAM-CS Course?

Prospective military and civilian students within the Department of Defense should contact their education and training officers for coordination in applying for attendance at the resident Customer Logistics Support Course. Personnel from other federal governmental organizations should coordinate their applications through their respective agencies. Requests for attendance must go through the following:

(1) For OASD: Chief, Training and Career Development Office, Room 3B347, Pentagon, Washington DC 20301-1115

(2) For Army: HQ USAMC, ATTN: AMCPE-CC-E-7N31, 5001 Eisenhower Avenue, Alexandria VA 22333-0001, (703) 617-5167/DSN 767-5167

(3) For Navy and Marines: NETSAFA, N32A3, 125 W. Romana Street, Suite 600, Pensacola FL 32501-5849, (904) 452-2900 X32924/DSN 922-2900 X32924

(4) For Coast Guard: COMDT COGARD/G-CI, Washington DC 25903-1000

(5) For Air Force: HQ AFMC/DPEE, Wright-Patterson AFB OH 45433-5000, (937) 656-0194/DSN 986-0194

(6) For Defense Logistics Agency: Chief, DCPSO-U, 380 Morrison Road, Columbus OH 43213-1430, (614) 692-5935/DSN 850-5935

(7) For foreign students wishing to attend the Customer Logistics Support Course (SAM-CS), requests for country quotas and attendance must be made to AFSAT/SDS, 315 J Street West, Randolph AFB TX 78150-4354

(8) Application (DD Form 1556) for admission of foreign national employees of the United States Government should be addressed to Registrar, DISAM/DAS, Building 125, 2335 Seventh Street, Wright-Patterson AFB OH 45433-7803, (937) 255-4144/DSN 785-4144

Military department education and training offices must send to DISAM/DAS (Student Operations), Building 125, 2335 Seventh Street, Wright-Patterson AFB OH 45433-7803, two copies of DD Form 1556 for each individual nominated to attend the resident DISAM Customer Logistics Support Course. In addition, student eligibility questionnaires are required to be submitted along with all DD Forms 1556 for all students nominated for the SAM-CS. Contractor applicants for SAM-CS, are accepted on a space-available basis and should send their requests directly to their respective sponsor service.

Requests must arrive at DISAM not earlier than 90 days and not later than 30 days before the course start date. DISAM accepts or rejects a nominee based on information contained in the enrollment request.

How Do I Register for the On-site SAM-CS Course?

Contact the on-site course coordinator for that hosting organization.

Will I Receive Credit for Attendance at the On-site Course?

Every student attending a DISAM on-site course prepares an enrollment form on the first day of class. Upon course completion the DISAM registrar enters the student in the DISAM database so that the student is given credit for attendance and is eligible for follow-on DISAM training. Each student will also receive a diploma upon course completion and a generic DD Form 1556 specifying the hours and type of training, which the student can use to obtain credit in his or her employment record.

What is the Difference between the Five-day Resident Course and the Four-day On-site Course?

The on-site course includes all the same topics and hours as the resident course. The resident workshop, however, is equally divided across the four-day on-site, requiring students to interact and do homework outside of actual class hours.

What are the Course Offerings for FY99 and FY2000?

As described earlier, we have three on-site courses scheduled for FY99. We also have one more resident course at DISAM this fiscal year. We will be offering three resident courses and three on-site versions of the Logistics/Customer Support Course in FY2000. Here is the schedule:

CS-3-99	18-21 May 1999	NAVICP, Philadelphia, PA
CS-4-99	8-11 June 1999	USASAC, New Cumberland, PA
CS-5-99	16-20 August 1999	Resident (at DISAM)
CS-6-99	14-17 September 1999	NADEP Jacksonville, FL
CS-1-00	6-10 December 1999	Resident (at DISAM)
CS-2-00	11-14 January 2000	On-site (TBD)
CS-3-00	29 February - 3 March 2000	On-site (TBD)
CS-4-00	1-5 May 2000	Resident (at DISAM)
CS-5-00	6-9 June 2000	On-site (TBD)
CS-6-00	14-18 August 2000	Resident (at DISAM)

I Still Have Questions about this Course. Who Do I Contact?

Call me, MAJ Joanne Hawkins, at DSN 785-5850 or (937) 255-5850. Or, you can e-mail me at jhawkins@disam.wpafb.af.mil. If I am not available you can talk to our on-site coordinator, Mr. Gary Geilenfeldt, at the same number, or e-mail him at ggeilenfeldt@disam.wpafb.af.mil. If you have a question about registration, please contact our registrar, Mrs. Barbara Kitchen, at DSN 785-4144, or (937) 255-4144, or via e-mail at bkitchen@disam.wpafb.af.mil.

About the Author

Major Joanne Bernstein Hawkins is an Army Quartermaster officer and a DISAM Assistant Professor. She holds a Bachelor of Arts degree from the University of Miami, Florida, a Master of Education degree from Campbell University, North Carolina, and a Master of Science degree from Central Michigan University. She is also a graduate of the Army Command and Staff College. Major Hawkins has been teaching at DISAM for nearly six years, concentrating in FMS logistics, FMS process, legislation and foreign policy and FMS financial management.

Foreign Comparative Testing Program Promotes Global Defense Industry Partnerships

By

LTC Diana Davis, USA, Manager,
Foreign Comparative Testing Program, DSCA

and

Ms. Diane Solters, DSCA

In its 20th year, the Foreign Comparative Testing Program (FCT) continues to remain vital to supporting the U.S. policy of international armaments cooperation and promoting global defense industry partnerships. The FCT program resides under two Department of Defense organizations. It is administered by the Director, Defense Security Cooperation Agency, with day-to-day coordination activities of the program, and by the Director, Test, Systems Engineering and Evaluation, Office of the Under Secretary of Defense (Acquisition and Technology) with fiscal and policy oversight.

The principal objective of the FCT program is to support the warfighter by leveraging non-developmental items of allied and friendly nations in order to satisfy U.S. defense requirements more quickly and economically. Success for the program ultimately depends upon the Services and U.S. Special Operations Command procuring items that test successfully and are of best value. Since its inception in 1980, the program has funded 389 FCT evaluations which have resulted in 175 successful tests. Of these, 97 projects have resulted in procurements worth over $4.9 billion in FY99 dollars. With an FCT investment of approximately $693 million, DoD has realized RDT&E cost avoidance of over $3.4 billion. The following table documents the status of FCT projects in the services and U.S. Special Operations Command:

Table 1. Service and U.S. Special Operations Command Project Participation 1980-1999

Sponsor	Total Projects (1980-1999)	Total Projects Passing FCT	Projects Resulting in Procurement
Army	132	66	40
Navy/Marine Corps	167	72	37
Air Force	82	35	19
USSOCOM (95-99)	8	1	1

FCT projects are nominated annually by the services and U.S. Special Operations Command to the Office of the Secretary of Defense. Each proposed project is screened to ensure the item(s) is non-developmental, there is a valid requirement, a thorough market survey has been conducted, and the sponsoring organization has a viable strategy and funding to purchase the foreign item if it tests successfully and offers best value. Equipping the warfighters with state-of-the-art weapons systems to maximize security and minimize threat, improving acquisition strategies to optimize DoD's ability and resources to provide weapons, and modernizing logistics to reduce cycle times remain high priorities.

Over the past several years, the FCT program has been reoriented to be more consistent with Congress' intent and DoD acquisition reform initiatives. The FCT program places emphasis on having an Operational Requirements Document and procurement funds for service and SOCOM FCT projects, improving operational capabilities, facilitating the rapid fielding of non-developmental equipment, reducing acquisition costs and cycle times, generating operational costs savings, creating teaming opportunities for U.S. and foreign industry, and; in general, contributing to international armaments cooperation. These and other changes have improved and strengthened the value of the FCT program.

Acceptance and participation of other countries is key to the success of the FCT program. Table 2 lists the foreign countries that participated in the FCT Program from FY1980 into FY1999. Numerous FCT projects involved equipment from two or more countries and some have resulted in the procurement of multiple items.

Table 2. Foreign FCT Participation by Country

Country	Number of FCT Projects	FCT Funds Provided ($ million)	Number of FCT Items Selected for Procurement	Value of Procurements ($ million)
Australia	15	14.4	1	13.3
Austria	6	1.7	0	0
Belgium	10	4.3	0	0
Canada	33	42.2	7	64.4
Denmark	13	9.2	6	54.2
Finland	4	2.3	0	0
France	60	77.5	7	418.8
Germany	77	99.7	20	915.6
Israel	52	52.2	8	571.2
Italy	15	17.7	0	0
Japan	5	2.5	1	0.2
Netherlands	14	14.7	0	0
Norway	22	21.5	4	464.9
Russia	5	13.5	1	7.7
South Africa	2	1.0	1	10.6
South Korea	2	0.1	0	0
Sweden	44	71.2	12	563.6
Switzerland	5	2.3	1	61.0
Ukraine	1	1.2	0	0
United Kingdom	150	243.7	33	1,796.2
Totals	**385**	**692.9**	**102**	**$4,941.7**

Table 2 includes projects conducted under the Foreign Weapons Evaluation and NATO Comparative Testing Programs. Funds are shown in FY1999 dollars. Columns may not total due to rounding.

Additional benefits of the FCT program are that it promotes full and open global competition of "best value" non-developmental products, fully utilizes competitive market forces, and helps our domestic vendors sell U.S. manufactured defense items overseas. The program also strengthens U.S. relationships within the international community by providing tangible evidence ($4.9 billion in foreign procurements and resultant teaming arrangements generated by the FCT Program) of the U.S.'s commitment to the "two way street."

Foreign items successfully procured through the FCT program play a vital role helping the warfighters accomplish missions throughout the world. For example, during recent operations in the Gulf War and Bosnia, foreign items tested under the FCT program have proven to be the right equipment needed to accomplish the mission. In Desert Storm, the Air Force's primary runway cratering weapon, DURANDAL, from Matra (France), was procured as a result of the FCT program. The Army's Combat Bridging Support Boats, an FCT project from Fairey Allday (U.K.), were used to construct a bridge over the swollen Sava River that was blocking U.S. forces in Western Europe from entering Bosnia. The Marine Corps' Anti-Magnetic Mine Actuating Device from Israel Aircraft Industries and the Air Force's Eagle Vision, a mission rehearsal system from Matra CAP Systems that provides U.S. pilots with imagery enabling near real time practice "fly overs" in Bosnia, are both recent results of the FCT program. U.S. forces backing UN sanctions against Iraq are currently using the BOL Chaff Systems from Sweden (Celsius Tech) on Navy F-14 aircraft for self protection and Improved Chemical Agent Monitors from the U.K. (Graseby) to identify potential chemical munitions.

The above cases provide just a few examples of how the FCT Program promotes global partnerships between U.S. and foreign defense industries. These partnerships or teaming of U.S. and foreign industries can also lead to U.S. production of a foreign item. This is a good way for small foreign vendors to gain entry to what they often perceive as a defense monolith, penetrable only by large U.S. or foreign industries. For the United States, the resultant teaming/partnerships can mean more jobs and better local economies. Additional examples of FCT procurements and the U.S. companies and communities benefiting from the program are included in Table 3.

In a time of global defense industry unification, increasing emphasis on interoperability, shrinking RDT&E funds and shrinking defense markets, the FCT program offers a proven alternative for foreign allies to gain entry into the U.S. defense market. The DSCA program managers at FCT are convinced that competitive marketing and comparative testing are key to acquiring best value products for our number one customer - the warfighter.

Additional FCT Program information is available on the DSCA Homepage or FCT Homepage on the World Wide Web at http://www.dsca.osd.mil or http://www.acq.osd.mil/te/programs/fct/.

Table 3. Examples of U.S. Production Resulting From the FCT Program.

Item	Foreign Mfr./Country	U.S. Production	Location
60/81mm Mortar Training Ammunition	SOLTAM/SALGAD Israel	POCAL	Moscow, PA
105mm Lightweight Howitzer	Royal Ordance, United Kingdom	Rock Island Arsenal Watervliet Arsenal	Rock Island, IL Watervliet, NY
120mm Tampella Mortar and Ammunition	IMI, Israel	Martin Marietta Valentec Radford Army Ammo Plant Brockway Standard Loral Corporation United Ammo Center AMRTEC	Milan, TN Mt. Arlington, NJ Radford, VA Homerville, GA Scranton, PA Milan, TN Coachella, CA
Chemical Agent Monitor	Graseby, U.K.	ETG, Inc.	Towson, MD
Chemical Defense Equipment Air Crew suits	Blucher, Germany	Hoechst-Celanese Corporation	Charlotte, NC
Combat Support Boat	Fairey Allday, U.K.	Advanced Technology	Charleston, SC
Digital Flight Control	GEC Marconi, U.K.	Northrop Grumman	Bethpage, NY
Eagle Vision	Martra CAP Systems, France	DATRON TRANSCO Inc. ERIM	Simi Valley, CA Ann Arbor, MI
HAVE NAP	Israel Military Industries	Martin Marietta	Orlando, FL
HiPPAG Power Supply	Ultra Electronics, U.K.	Simmonds Precision Motion Control	Cedar Knolls, NJ
Improved Chemical Agent Monitor	Graseby, U.K.	Intellitec	Deland, FL
2KW Generator Set	Mechron, Inc., Canada	Dewey Electronics	Morristown, NJ
M72A3 Light Anti-Tank Weapon	Raufoos, Norway	Talley Defense TRACOR	Mesa, AZ San Ramon, CA
Munitions Ejector Release Units	Alkan, Germany	EDO Corporation	Salt Lake City, UT
Muzzle Velocity System	Reshef, Israel	Technical System, Inc.	Grand Rapids, MI
SANATOR Decontamination Units	Karl Hoie, Norway	Engineer Air, Inc. (EIA)	St. Louis, MO
Small Unit Support Vehicle	Haagland-Soner, Sweden	United Defense Corporation	San Jose, CA
Spray Formed Alloy 625 Piping	AB Sandvik Steel, Sweden	Babcock & Wilcox	Barberton, OH

About the Authors

LTC Davis is assigned to Defense Security Cooperation Agency (DSCA) as the Manager of the Foreign Comparative Testing Program. Her previous major acquisition assignments included Assistant Project Manager for Tank Systems and Deputy Division Chief at Communications Electronics Command (CECOM) Acquisition Center Washington. LTC Davis is also a Maintenance Test Pilot, qualified in the UH-60 Blackhawk and UH-1 Huey. She holds a Masters of Science degree in Contracting and Industrial Management and a Bachelor of Administration in Business. Her professional military education include the Defense Systems Management College Program Manager Course, Command and General Staff College, Transportation Basic and Advance Courses.

Diane Solters is an employee of Booz-Allen presently under contract to the Foreign Cooperative Testing Program.

Unique DIILS Program: Mongolian Supreme Court Justice and Lawyer from the Constitutional Court of Russia Preside Over U.S. Jury Trials

By

Judge Shackely F. Raffetto, CDR, JAGC, USNR-R

Justice Gombosuren Ganzorig of the Supreme Court of the Peoples Republic of Mongolia co-presided over an actual felony criminal jury trial last April in a State court in Hawaii. This experience was repeated in December for Dr. Bakhtiyar R. Tuzmukhamedov, international law expert with the Constitutional Court of Russia. Both Justice Ganzorig and Dr.Tuzmukhamedov were guests in my trial court in Maui, Hawaii.

This program, dubbed a Court Observer Program, is a follow-on to a training seminar about the U.S. military justice system conducted by a team from the Defense Institute of International Legal Studies (DIILS) for judges and lawyers in Mongolia in August, 1997 at Ulaanbaatar. I served as a member of the DIILS team. Justice Ganzorig coordinated the seminar program from the Mongolian side. During the Seminar Justice Ganzorig expressed his interest in personally observing the U.S. justice system and especially the manner in which a jury trial is conducted. In April of last year I met Dr. Tuzmukhamedov at the annual Pacific Command International Law Conference which he attended as a member of the Russian delegation to the Conference. Dr. Tuzmukhemedov also expressed interest in observing first hand an American jury trial. Trial by jury has recently been adopted on a "pilot project" basis in certain locations near Moscow. Interestingly, the government of Japan is currently seriously considering the adoption of trial by jury.

I serve as an adjunct faculty member with DIILS, which is headquartered at the Naval Justice School in Newport, Rhode Island. DIILS currently conducts training seminars on a wide range of subjects (more than 20-200) related to the rule of law, justice and human rights and has presented programs to over 9,800 military and civilian personnel in 68 countries worldwide since 1992. I also serve as a Commander in the U.S. Navy Reserve and as a Military Judge. I am able to provide this type of Court Observer training experience because in civilian life I am the Chief Circuit Court Judge and Senior Family Court Judge for the Second Judicial Circuit (Maui County), State of Hawaii. In my court I preside over trials in felony criminal cases and civil cases of unlimited jurisdiction.

I am committed to providing this type of Court Observer training experience to interested law professionals from other nations because I believe that trial by jury, a singular characteristic of the U.S. justice system both civilian and military, is an important institution and concept that nations seeking to perfect their democracies will want to observe first hand and consider for adoption. Together with free speech and freedom of the press it is the jury system of justice that has perpetuated democracy in the U.S., the longest lasting government in the world in its present form, for over 223 years. In addition, these institutions enhance public trust and belief in the rule of law and reduce corruption and injustice. Dialog between law professionals of different nations about how justice is manifested in their societies is crucial to international understanding and, ultimately, world peace.

Mongolia, like all other post cold-war, Soviet nations adopted the civil law system of justice when it adopted its new constitution. In its new system criminal cases are decided either by a judge or a judge assisted by two citizen judges. Cases involving members of the military are tried in the civilian courts and there is no separate system of military justice. There is no right to trial by a jury of one's peers or fellow citizens as in the U.S. system.

The jury system, in which twelve citizens who are untrained in the law decide the facts of the case and then apply the law as instructed by the judge to arrive at a verdict, is unique to the common law system, derived from the English legal system, and is only utilized in a few nations in the world. Trial by jury is available more extensively in the U.S. than in any other nation. Across the U.S. each Monday morning, thousands of citizens who have no legal training gather to participate directly in the justice process --- actually creating justice. The author believes that it is the jury system that accounts for the high level of belief in the rule of law in the U.S. and is the reason that citizens in the U.S. do not fear their government. Criminal charges brought by the government against individual citizens are decided by other citizens, not representatives of the government. The government has no right to appeal a "not guilty" decision by the jury. This aspect of U.S. democracy represents the best example of government "of the people, by the people and for the people" as envisaged by President Abraham Lincoln.

The Constitutions adopted by many post cold-war nations, including Mongolia and Russia, guarantee many and often more of the same individual rights to their citizens than does the U.S. Constitution. These rights include such rights as the right against self-incrimination. Often, because these constitutions are so new few judges and lawyers in these nations have any academic training in constitutional law as it applies in a democracy in democratic constitutional traditions. Therefore, they face important, new questions of what those promises of individual rights should and will mean in their nations. It is in the interests of all democracies that their law professionals learn about methods and legal institutions utilized by other democratic nations and assist each other to learn and implement concepts and ideas that have been proven to enhance Democracy, strengthen democratic institutions and promote public confidence in the rule of law.

In the U.S. legal system individual constitutional rights are often the very first rights asserted by a citizen or soldier charged with a criminal offense. Lawyers in the U.S. justice system routinely fashion legal arguments for the accused based on individual constitutional rights specifically guaranteed under our Constitution. These rights are often decided in my court and are issues dealt with in jury trials. Thus, a foreign law professional will have the opportunity to observe the manner in which these issues arise and are addressed in my court.

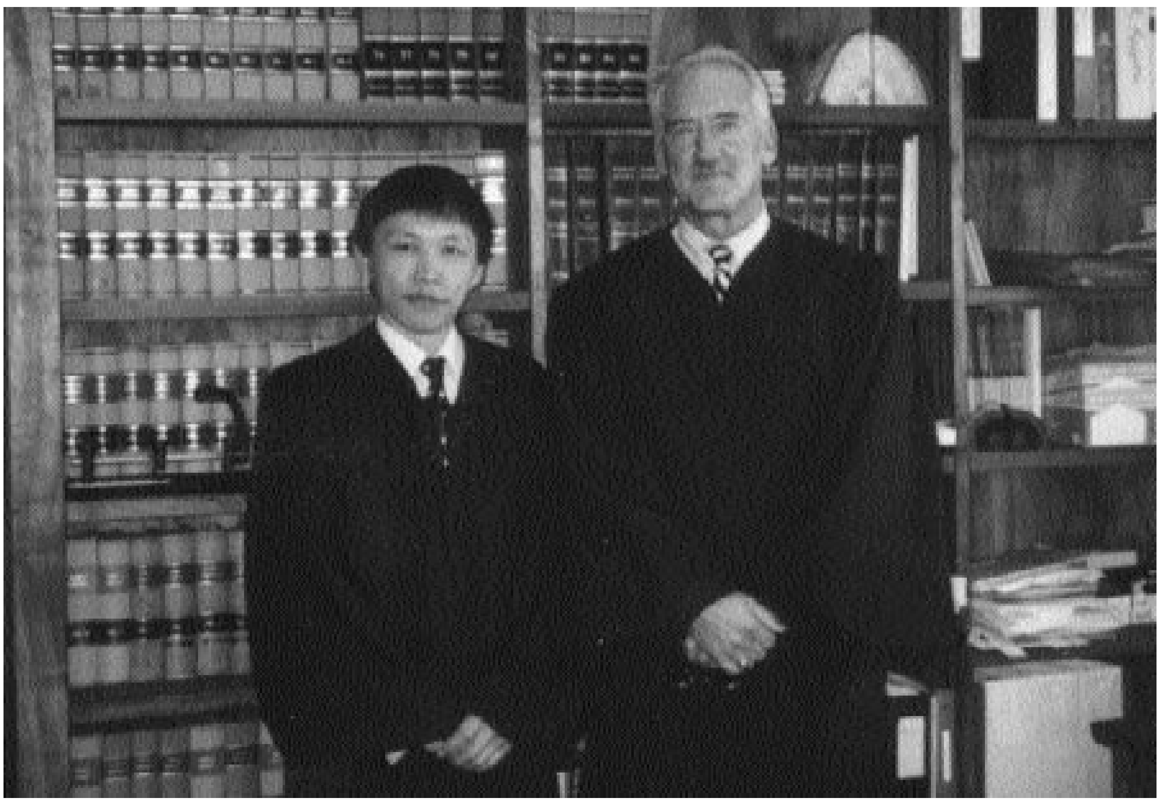
These issues and ideas were among those discussed with the Mongolian judges and lawyers at the DIILS seminar in Ulaanbaatar. As a result of our discussions Justice Ganzorig and I struck upon the idea of him traveling to my court in Maui, Hawaii to personally observe and experience how a jury of citizens functions in our jury system and how individual constitutional rights are determined in a criminal proceeding. I have often heard judges and lawyers in other nations say that the reason the jury system is not considered for use in their nations is because their citizens do not understand the law sufficiently. This misses the point: jurors in the U.S. are selected without any knowledge of the law and if they should happen to have any legal training they are carefully instructed to disregard it because the judge will advise them about the law necessary to decide the case when the appropriate time comes during the trial.

In order to implement the Observer Program for Justice Ganzorig I worked with Ms. Barbara Billips, then Security Assistance Officer at the U.S. Embassy in Beijing where the E-IMET program planning was handled for Mongolia at the time, to develop the Program and obtain E-IMET funds to bring Justice Ganzorig to Hawaii for three weeks. During the first week Justice Ganzorig visited U.S. military justice facilities on Oahu at Pearl Harbor and observed a court martial. He also visited the Hawaii state courts, including a meeting with Chief Justice Ronald Moon of the Hawaii Supreme Court. He met with the Dean of the University of Hawaii Law School and also visited the East-West Center and the Asia Pacific Center and met a number of lawyers and judges in Honolulu.

The DILS training team in Mongolia. Justice Ganzorig (center) with (left to right) Capt. Lawrence Eppler, USCG, Col. John Atkinson, USMCR, Ms. Otgonbayar, Member of Parliament of the Great Hural of the Peoples Republic of Mongolia, and CDR Raffetto at the Government Palace, Ulaanbataar, Mongolia. A reproduction of the Standards of Genghis Khan can be seen in the background.

After his week in Honolulu, Justice Ganzorig traveled to Maui and spent two weeks as my guest observing proceedings in my Court. The court in which I preside is the Second Circuit Court. It is a court of unlimited jurisdiction and I handle all types of felony criminal jury trials, civil jury trials, motions, sentencing and other judicial proceedings. In fact, because all types of proceedings are handled in the Second Circuit Court, it is ideal for a court observer program. To make the experience of a U.S. jury trial as effective as possible I obtained a black robe for Justice Ganzorig (traditionally worn by judges in the U.S.) and he sat next to me on the Bench throughout the entire trial, including the jury selection process, arguments and jury instructions. Having

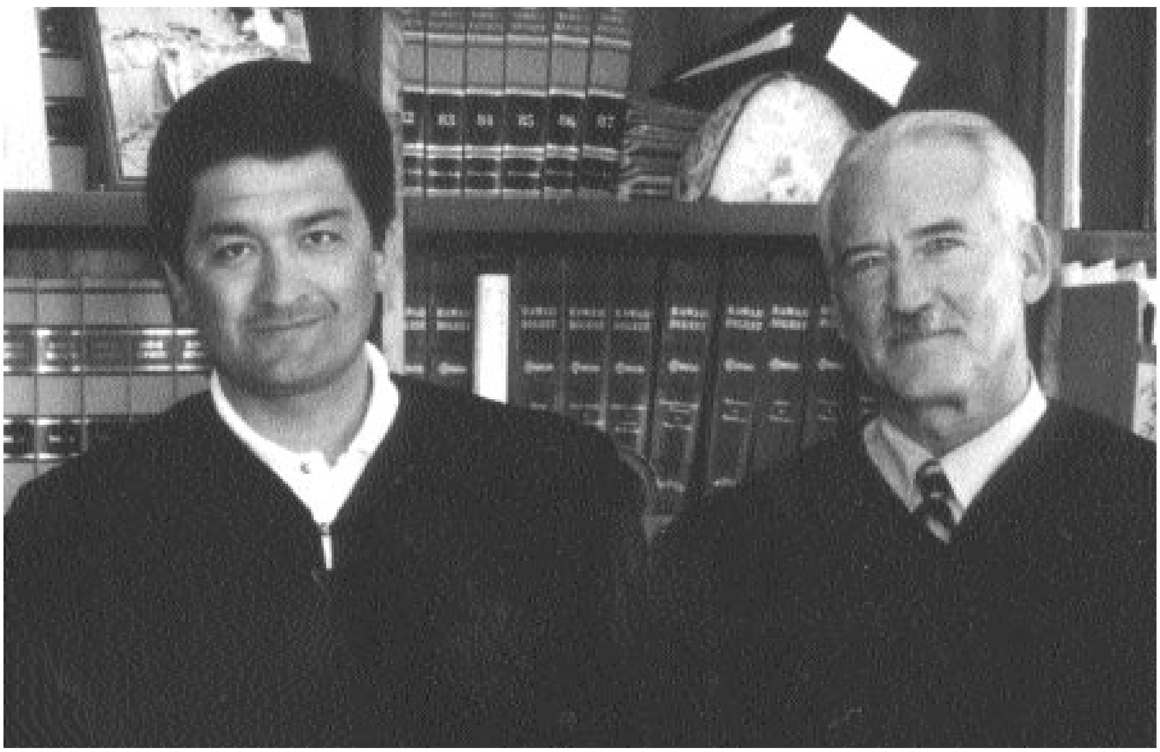
Justice Ganzorig sitting next to me was especially effective because he was able to hear all of the conferences held with the lawyers at the Bench which are outside the hearing of the jury. During the jury selection part of the trial these conferences included discussions with individual citizens who discussed their qualifications to serve as jurors in the case. Justice Ganzorig and I discussed each stage of the jury trial as it progressed and various points of law and evidence that came up during the trial. One point which was of special interest to Justice Ganzorig was the issue of the admissibility in the trial for consideration by the jury of "prior bad acts" of the defendant. "Prior bad acts" are generally not admissible in evidence and the jury does not learn of them under U.S. rules of evidence because of the presumed tendency by the jury to convict the accused based upon his or her prior bad conduct rather than the facts of the current case. By comparison such prior bad acts are considered by the judge in Mongolia. Justice Ganzorig and I spoke extensively with the jurors after the trial was completed and they had rendered their verdict. He was keenly interested in their comments and perceptions of the evidence in the trial and how they went about applying the law given by the judge to the facts of the case in order to reach a verdict. I am certain that as a result of this experience Justice Ganzorig now has a thorough understanding of how the U.S. legal system works and undoubtedly will keep what he learned in mind for possible use in the future development of the legal system in Mongolia, both in civilian and military trials.



Justice Ganzorig and Judge Raffetto in the latter's chambers wearing traditional U.S. judges' black robes.

Similarly, Dr. Tuzmukhamedov observed an entire criminal jury trial "at my right hand" and we spoke to the jury afterwards so he could discuss with them directly their experience as jurors. Dr. Tuzmukhamedov found the jury selection process particularly interesting and told me he believes it has great potential for educating citizens in Russia about the legal system and the rule of law. I worked with LTCOL Tania Bublick, Security Assistance Officer at the U.S. Embassy in Moscow to arrange for the E-IMET funding and planning for his Court Observer Program.

Two additional factors enhance the Court Observer Program. The first is that Hawaii is a place of great natural beauty with many cultural and tourist attractions. Both Justice Ganzorig and Dr. Tuzmukhamedov were able to sightsee and experience the beauty and charm of Hawaii. I believe that the success of the program is enhanced substantially by the collegiality and friendship that develops from sharing leisure activities as well as court room experiences. The second is that Hawaii is a multi-cultural state with almost every ethnic and racial group represented. There is no "majority" race in Hawaii. Foreign law professionals, especially those from Asian nations, will see familiar looking faces and hear familiar sounding names of the citizens on the jury. I believe this helps to personalize the experience and shows that the successful functioning of the jury system is not specific to any particular ethnic group. The justices of the Hawaii Supreme Court, for instance, represent ethnic groups including Korean, Japanese, Hawaiian, European and Philippine.



Dr. Tuzmukhamedov with Judge Raffetto

It is important to stress, however, that it is not the purpose of the Court Observer Program to convince law professionals from other nations to adopt the U.S. model, but rather to enhance the dialog between law professionals about concepts of justice, the rule of law and due process of law that the DIILS Seminars have so effectively established. Judges and lawyers in all nations perform the same task -- the functioning and administration of justice in their respective societies. There are many different approaches, some better than others, but what is of great importance is that as each nation develop its own vision of democracy and that all democratic nations share their ideas and experiences with each other. Citizens of all nations have a great stake in the success of the global democracy movement that is currently expanding in most nations. There is no guarantee that democracy or citizen-oriented government will endure. It never existed prior to being adopted as the basis for the U.S. government after our Revolutionary War, as a result of which the U.S. gained its freedom from British colonial rule. As noted above, the U.S. system of democratic government is the longest lasting government of any nation. But, whether democracy will continue in the future depends upon the efforts of law professionals who have the stewardship of the process of justice. It is the genius of the DIILS program that it provides a forum for, supports and enhances this important dialog. And, it is hoped by the author, that the Court Observer Program outlined here will be a valuable adjunct to the DILLS teams and their seminars.

I am very interested in expanding the Court Observer Program and offering a similar experience to judges and lawyers from other nations as a follow-on to DIILS training seminars.

I invite anyone interested in further information about this Program or who may be interested in sending a law professional from their nation to my court to contact Mr. Walter W. Munroe, DIILS Academic Director, Defense Institute of International Legal Studies, 360 Elliot Street, Newport, Rhode Island 02841-1523, telephone (401) 841-1524, DSN 948-1524, Fax (401) 841-4570, DSN 948-4570 Message (401) 841-4570, e-mail: MunroeWW@jag.navy.mil or riwalt@aol.com. Or, if you wish, contact me directly at Second Circuit Court, Courtroom No. 2, 2145 Main Street, Wailuku, Hawaii 96793 or Telephone: 808-244-2980, Fax: 808-244-2819, e-mail: Jsraffetto@aol.com.

About the Author

CDR Raffetto is the Chief Circuit Court Judge of the Second Judicial Circuit Court in the State of Hawaii. He is also the Senior Family Court Judge. He is a Certified Military Trial and Defense counsel and Military Judge. In his capacity in the Naval Reserve, he serves as an adjunct faculty member of the Defense Institute of International Legal Studies.

SECURITY ASSISTANCE CALENDAR

2-3 June 1999	AFSAC DSAMS Training at DISAM
2-4 June 1999 EXPO	The Defense Logistics Support Command is hosting the annual DLA and Security Assistance Conference in New Orleans. The EXPO is 2-3 June and the Security Assistance conference is on Friday, 4 June. Questions for the panel must be submitted prior to the conference. They may be faxed to DSN 427-7515 or commercial (703) 767-7515, e-mailed to linda kimberlin@hq.dla.mil or mailed to Defense Logistics Support Command, ATTN: DLSC-CI (L. Kimberlin), Room 4133, 8725 John J. Kingman Road, FT Belvoir, VA 22060-6221.
6-12 June 1999	USPACOM Budget Conference, Bangkok, Thailand
2-6 August 1999	USSOUTHCOM Budget Conference at DISAM Computer Lab
13-17 September 1999	DOD Worldwide Antiterrorism Conference (DWATC), Norfolk VA (SECDEF/SO-LIC 221800Z FEB 99)

POINTS OF CONTACT UPDATE

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Defense Security Cooperation Agency
Attn: (Directorate/Division)
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1111 Jefferson Davis Highway
Arlington VA 22202-4306

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Kelly AFB TX 78241-6425

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Commercial: (210) 925-7870
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Commercial: (850) 452-2900
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RESEARCH AND CONSULTATION

Is there a security assistance procedure, requirement and/or program guidance which is [or has been] presenting a significant problem in accomplishing your security assistance function? If so, DISAM would like to know about it. If you have a specific question, we will try to get you an answer. If it is a suggestion in an area worthy of additional research, we will submit it for such research. If it is a problem you have already solved, we would also like to hear about it. In all of the above cases, DISAM will use your inputs to maintain a current "real world" curriculum and work with you in improving security assistance management.

Please submit pertinent questions and/or comments by completing the remainder of this sheet and returning it to:

DISAM/DR
2335 Seventh Street
Wright-Patterson AFB OH 45433-7803
or
Data Facsimile Number: DSN 986-4685 or Commercial: (937) 656-4685
or via internet: research@disam.wpafb.af.mil

1. Question/Comment: [Continue on reverse side of this page if required.]

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2. Any Pertinent References/Sources:

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3. Contact Information: ____

Name ____

Address____

Telephone Number____

4. Additional Background Information:______________________________________

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